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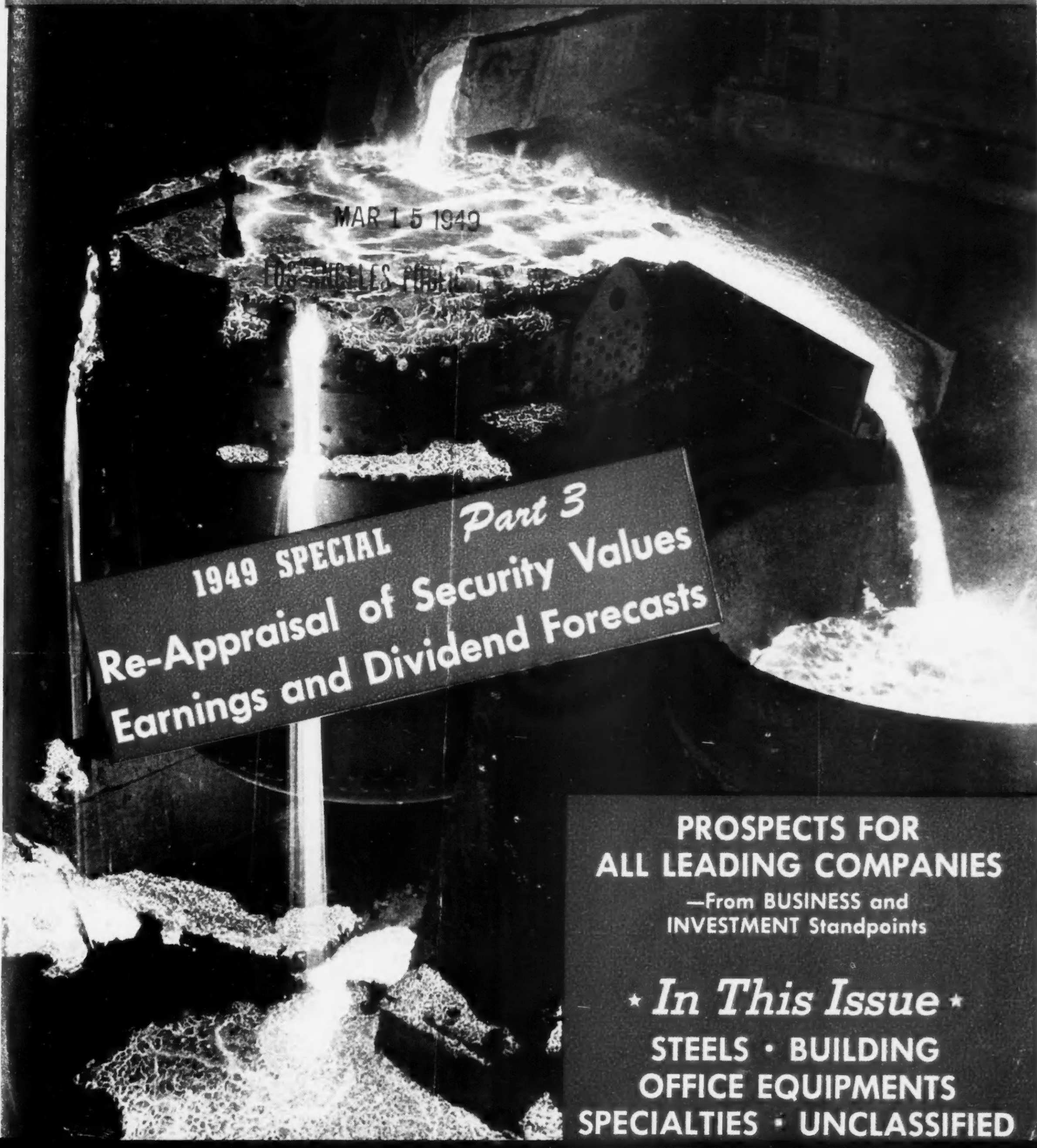

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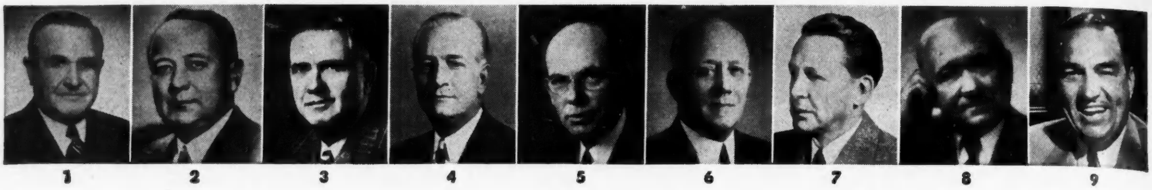

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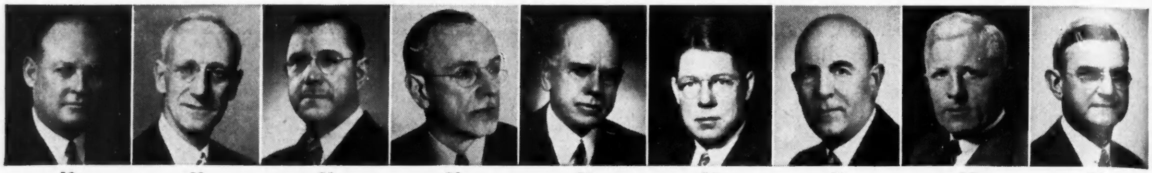

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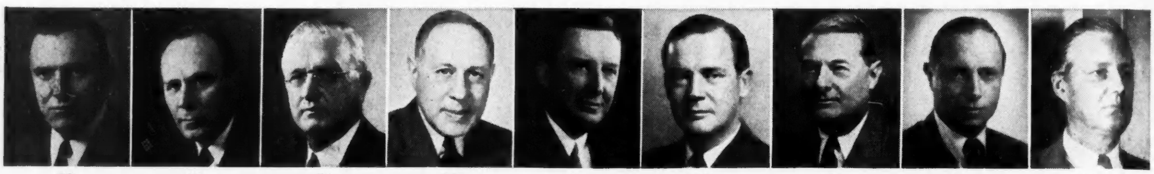

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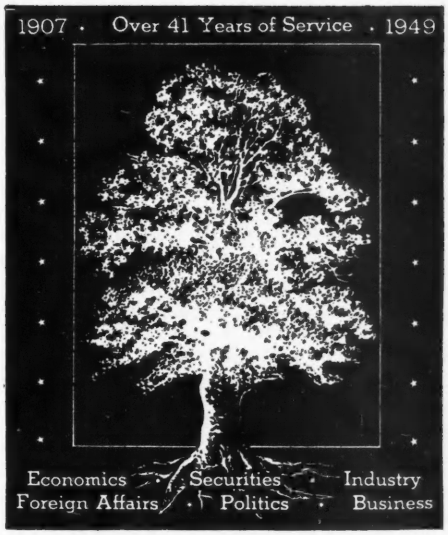
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

RELAXING CREDIT CONTROLS . . . The Federal Reserve Board last week finally came through with the long awaited easing of Regulation "W" in respect to instalment credit, leading some cynics to remark that "it's an odd sort of inflation that has to be fought by relaxing credit curbs.

This quib refers of course to the curious fact that only a day before the FRB acted, the President's advisers on his Economic Council had reiterated the view that business is undergoing no recession and that inflationary threats still exist. It stands to reason that the FRB action reflects cognizance of the present needs of business and the consumer public; thus it contrasts strangely with the official refusal to admit a let-down in business. It will make it ever more difficult to convince Congress that anti-inflation curbs are needed. The Administration's anti-inflation program, it seems, is now bogged down worse than ever, probably beyond resuscitation.

Relaxing consumer credit curbs is bound to aid sales of lagging consumer durable goods, thus improves the chance of a satisfactory spring pick-up in business. But in the opinion of many, the FRB did not go far enough in liberalizing terms to provide the sales stimulus needed in the present market. Automobile dealers who had hoped for a greater extension of payments limits (to at least 24 months instead of the 21 months granted) are openly disappointed though conceding realistically that "half a loaf is better than none." They anticipate further liberalization of terms once the FRB is convinced that a further stimulus is needed. On the latter score, the latest action speaks for itself but the Board doubtless preferred not to move too far out of line with Administration policies which still stress inflation rather than deflation. Quite likely, also, it prefers to wait and see just how effective its action will be. Chances are, since a general spring pick-up in business is now widely anticipated, that the FRB move may get more credit for it than it actually deserves.

At any rate the Board by its action is saying that the boom is over and that credit controls can now safely be relaxed. It also suggests the belief that business needs some stimulus. To businessmen this is not exactly news; it is gratifying that at least one official agency has now openly admitted it and decided to do something about it, however conservative its action.

HOW ABOUT MARGIN REQUIREMENTS? . . . In relaxing consumer credit controls, the Federal Reserve Board has cited the $145 million drop, last January, in outstanding consumer credit. Purely on the grounds of credit in use, if not for more weighty reasons, the FRB should likewise re-examine its requirement for 75% margins on stock trading. Brokers' loans last month declined $26 million to a total of a mere $313 million. In the interest of combating recessionary tendencies, a reduction in margin requirements would be well advised. It is a mystery why in view of the depressed

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis, of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

status of the stock market, such a step was not taken long ago.

It is still necessary for the trader or investor to deposit 75% of the amount involved whenever he buys stocks. There is no such stringent restriction in force on purchases of any other forms of wealth, whether real estate, commodities, automobiles, clothing or anything else. Yet if the investor wishes to buy stocks, even if they have been paying dividends for fifty years or more, he must put up three times as much money as he is permitted to borrow. A 50% margin requirement would be far more realistic. Here is hoping that the Board will soon come around to this view.

A move in this direction has been widely forecast for some time. Possibly the Board may first want to watch the effect of easing Regulation "W" before acting on margin requirements. Informed quarters anticipate that the sequence of anti-deflationary moves will be relaxation of consumer credit restrictions (already undertaken), then lowering of margins on stock trading, and finally reduction of reserve requirements for Federal Reserve member banks. Each of these moves would be followed by a waiting period in which an attempt is made to assess their influence on the economy.

Step two, lowering of margins, will not only stimulate the use of credit but it would remove at least part of the difficulties presently encountered by corporations seeking to sell equity issues in order to raise capital for expansion and modernization, and provide a cushion of demand in the event of stock market weakness. It is a step that should not be long postponed, since it is bound to encourage a more confident outlook, the very thing we need.

LEADING THE WAY . . . The significance of the price reductions announced recently by General Motors following small pay cuts under the cost-of-living clause of its wage contract goes far beyond their size.

For one thing, the action was a symbol of the shift away from inflation as is of course the new situation prevailing in the automobile market. So long as new cars were short in relation to demand at the level of prices charged, there was some reason to argue that the turn of business in 1949 might be just another flurry in the over-all inflation, not the beginning of the end of it. But obviously car demand isn't what it used to be.

However, the real importance of the GM step lies in the economic principle involved, the revival of the policy of using price cuts to stimulate demand, and of passing on cost savings to the customer. From the standpoint of timing, the action came at a most opportune moment, not only because the corporation tied in the price cut with the first cost-of-living wage reduction but also because it came at a time when far-reaching decisions regarding future wage, price and production policies must be made by management, labor and the Government. Tying price cuts in with wage cuts leaves labor nothing to complain about and those who are trying to belittle them merely confirm this. It should certainly weaken labor's attack on profits and strengthen the case of those who argue for widest possible emulation of the example set by General Motors. Above all it proves that with labor cooperating, prices *can* be reduced with beneficial effects all around.

It may be that in certain cases, prices can be lowered by cutting into corporate margins but more often than not, real reductions in costs will be needed. This will be brought home in the year ahead when demand-supply disparities in a good many fields will become increasingly evident. Once demand begins to lag, there are two possible solutions: One is to cut production in order to reduce supply. The other, to cut prices to stimulate demand. Management has been frequently accused of doing the former without first attempting the latter, which shows that few people realize how quickly profits can evaporate. At today's high break-even points, this is more true than ever; hence it is hardly possible to establish a hard and fast rule in this respect.

DECLINING WORLD PRICES . . . While our attention has been centered on declining prices at home, easier price tendencies in many parts of the world seem to have escaped widespread notice, yet they hold considerable significance to us as well as the world at large. It isn't that the downtrend is uniform or drastic, but there is mounting evidence that just as here at home, inflation abroad is levelling off and the direction is towards lower rather than higher prices. Underlying demand for most commodities still is too strong, however, to suggest that anything like a price collapse is in sight, though raw material producing countries see a squeeze ahead.

As at home, farm products are pointing the way reflecting the recovery and expansion in farm production that has occurred virtually everywhere, though poor crops would undoubtedly tend to firm prices quickly. The dramatic drop in French retail prices is a case in point. Coming on top of a decline in French wholesale prices of farm products and of a rise in the gold and dollar value of the French franc, it suggests that the French may be reaching a turning point in their fight for recovery and against inflation. Obviously the French farmers, concerned about the price trend, have been bringing produce to the markets in increasing volume. Significantly, also, they have been dishoarding some of their gold, attesting to growing confidence in the French economic and fiscal outlook.

Implications of the world price trend are manifold. Manufacturing countries can look forward to cheaper imports of foodstuffs and raw materials, lessening the strain on their balance of payment positions. The reverse, of course, is true of raw material countries as Argentina's difficulties show. Manufactured goods prices are still high and until they, too, tend downwards as sooner or later they will, these countries will be beset with problems.

On the whole, western Europe as an importer of foodstuffs sees in declining farm prices a distinct boon. Marshall Plan dollars will go further in the purchase of foodstuffs and agricultural raw materials. Britain which imports most of her food on long term contracts will benefit less immediately but ultimately an improvement in her terms of trade is also in sight.

Larger production and lower prices will naturally make for greater competition. Watch our next issue for a detailed study of the implications of this important development.

As I See It!

BY ROBERT GUISE

NEED FOR UNITY

To most peace-loving people, the thought expressed in the cartoon below will probably seem an excellent if impractical idea. Unfortunately, we cannot solve the world's troubles by transplanting Stalin to another planet; the search for real world peace must continue by other means.

Within the framework of the global effort to attain peace and stability, some significant steps have been taken within the past year toward the defense of Western Europe against Soviet aggression. We have seen come into existence the Brussels Pact where five of the countries of Western Europe have banded together. Another is speedy materialization of a North Atlantic Security Pact, strengthened by Norway's courageous decision to join up with the Western powers despite heavy Russian pressure. A third has been the setting up of a council of European ministers and plans for a European legislative assembly as further if somewhat hesitant steps towards a European Union.

"IF WE COULD ONLY PUT RUSSIA ON ANOTHER PLANET"

Apologies to Loring in the Evening Bulletin

It is natural that progress towards a European Union, however slow and limited so far, is hailed as bringing nearer a United States of Europe, the hope and dream of so many statesmen for so many generations. Still it can hardly be argued logically that what's been done so far represents wholehearted progress, or could possibly portend an early solution of the many difficulties standing in the way.

Actually a European Union is still disappointingly far off. The sorry fact is that Europe, even Western Europe, is pretty well divided today even in the face of the common threat of communist aggression. Too many conflicting interests, aims and viewpoints are making progress towards a United Europe heartbreakingly slow. Yet time is of the essence!

Anglo - French differences are running deep. While Britain in the past seemed keenest on setting the pace toward a greater measure of European unity, it looks now that she is acting as a brake rather than as an accelerator. The underlying feeling is that Britain thinks that her hope may lie in the Commonwealth rather than in Europe.

France in turn is shot through with many isolationist currents. Anglo-French relations are delicate for a number of reasons, particularly because of the apparent neglect of continental interests in the British long term economic planning and still unresolved differences over Germany. In short, while a powerful public opinion in Europe strongly favors union and there is much talk about it at the highest levels, this sentiment runs up against deadly restrictions which make for greater disunity in Western Europe than existed for many generations. As it is, British foreign policy seems to be opposing many of the practical things suggested to make union possible, and Franch intransigeance on many points at issue is equally disturbing.

The basic trouble is that a "Western Union" appears to mean different and often opposite things to many people, thus there is equal variety in the methods proposed to achieve this goal. Clearly the issue first to be decided is what "Western Union" is to mean; no organization will hold the nations together if basic purposes are contradictory. Above all, Western Europe's part in the field of world politics must be the starting point for any useful decision.

Some talk of a Europe united but isolated from the wider western community, an idea born chiefly of narrow self-interest and political shortsightedness, for such a European block would quickly fall into the Soviet orbit. What's needed is a real Federation of Europe closely (*Please turn to page* 656)

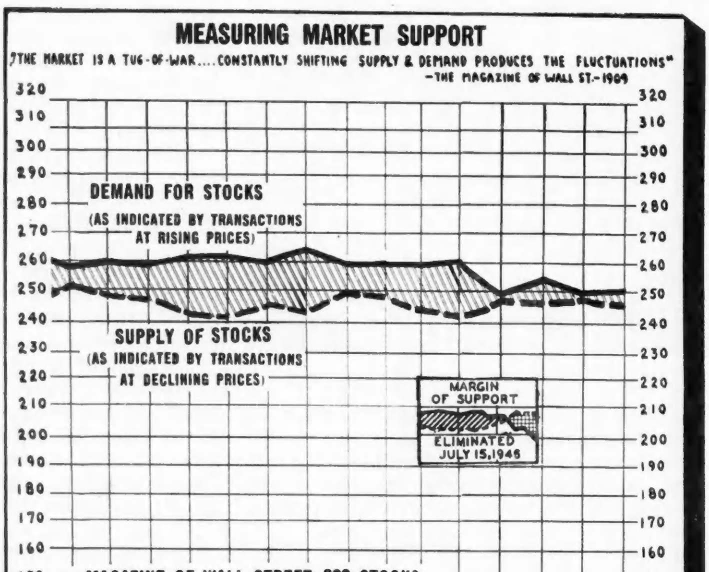
Many Stocks Have Seen Bottom for 1949

We believe that the recent let-down in the economy is partly seasonal and that a Spring revival in business buying and activity is likely. Regardless of the market as a whole, many individual issues have overdiscounted existing uncertainties and we at this time recommend purchase of five of our ten market leaders as detailed in the discussion below.

By A. T. MILLER

Superficially, everything has seemed to be against the stock market during the past four monthths or so. There was the psychological shock provided by the unexpected outcome of the election. As that wore off, permitting a small year-end rally, many of the economic barometers began to suggest the arrival of the long heralded business recession and the start of price readjustment. The significance of the evidence bearing on "disinflation" has been under widely publicized debate, emphasizing, rather than clarifying, the uncertainty in the minds of many investors. Doubts were probably increased by the series of official observations intended to be reassuring. Among active traders, brokers and many professional analysis the gloom was very thick for some weeks in January-February.

So the market reacted, taking the industrial average slightly under its November low, and the more speculative sections of the list to the lowest levels since the spring of 1947. However, as indicated by the modest average volume of daily transactions, the actual liquidation on this downswing was light. The great majority of investors stood pat, too uncertain to add to holdings but not alarmed enough to sell. As brought out by the chart on this page, the sell-off was due to the cautious withdrawal of demand rather than to increased selling pressure. While that kind of market conditions can result in a material price swing, it cannot produce a sustained decline.



The Test Has Been Met

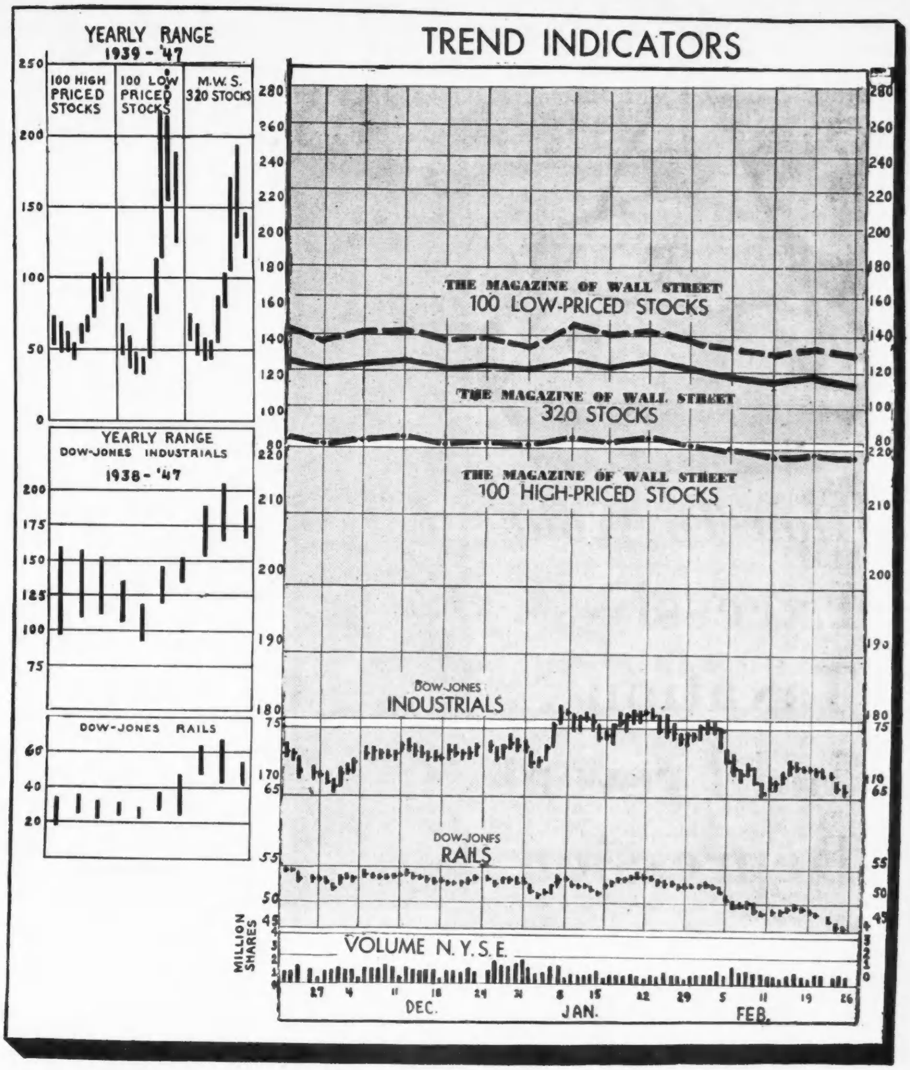
It has been our view for some time that it would take a broad liquidating movement to break the market down out of the broad trading range maintained over the last two years or so. With an inconsequential amount of stock held on margin, this would have to be voluntary selling — based on expectation of a really serious deterioration in business, earnings and dividends. The latter is certainly not in sight for the medium term, and we believe it probably can be ruled out for 1949. Meanwhile the market is rather thoroughly insulated against a moderate readjustment in earnings and the return of normally competitive business and price relationships. That is so because it has been making conservative allowance, through low price-earnings ratios and otherwise, for at least this much "disinflation" for an extraordinarily long period of time — in fact, ever since the late summer of 1946.

Against this background, it is significant that selling pressure once again dried up, and demand once again began to reassert itself, when the test came — when the long standing "defense line" was again closely approached. In terms of daily price measures, the "line" can be visualized readily through the Dow-Jones composite average of 65 stocks. The key lows were as follows: October, 1946, 58.53; May, 1947, 57.33; March, 1948, 59.89. The February 25 closing low was 61.51. Apporximating the low of last November, it constitutes a "double bottom" which we believe is unlikely to be broken in the foreseeable

future, if indeed during the rest of 1949. In our opinion, the behavior of many individual stocks — weighed in relation to company prospects — suggests that their lows for the current year most likely have been seen.

There was an appreciable improvement in the daily averages, in our broader weekly indexes and in the supply-demand relationship shown by our Support Indicator chart in the week ended March 5, continued up to our March 7 press-closing time. We believe that the intermediate trend is now probably upward, subject to normal technical dips.

Accordingly, we recommend current purchase of five of the "Ten Potential Market Leaders for 1949," presented and appraised in our issue of January 29 with a commitment to advise readers later on the timing of purchases, in the light of market action on test. These stocks have met the test even better than has the general list. They are Bethlehem Steel, du Pont, International Paper, Johns - Manville and Joy Manufacturing. Their closing prices March 5 averaged less than 1.1% under the prices carried in our January 29 (issue date) appraisals, against nearly 3.3% for the Dow industrial average, on a similar comparison. Individually, their January 29 appraisal prices compare with March 5 prices as follows: Bethlehem 33 and 31½; du Pont 185 and 184; International Paper 50 and 48½; Johns-Manville 38 and 37¾; Joy Manufacturing 38 and 38½.

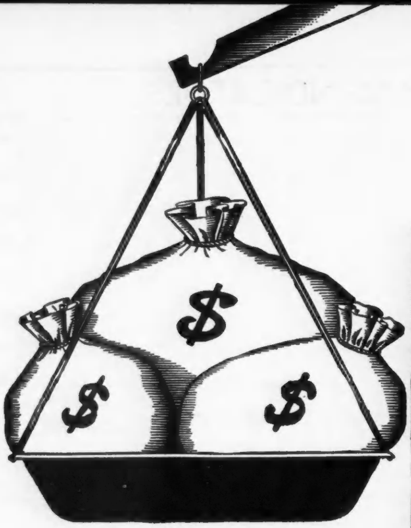


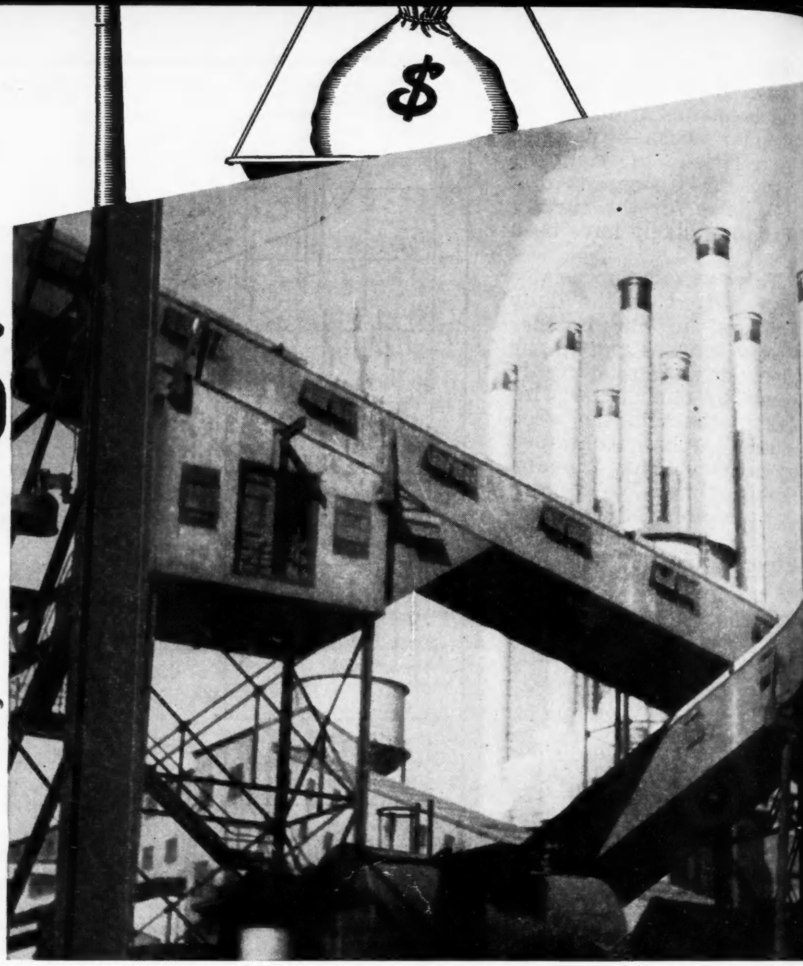
The Business Outlook

So far we have seen a substantial correction, long badly needed, in over-inflated farm and food prices — probably the bulk of it for 1949 so far as most primary farm staples are concerned. We have seen declines in a limited number of out-of-line non-farm and non-food commodities in which more competitive supply-demand conditions have developed, but with the broad average of finished-goods prices on an even keel near peak levels. We have seen nearly all of the sellers' markets transformed into buyers' markets. We have seen a relatively small rise in unemployment. We have seen a moderate slackening in retail trade, and a more pronounced one in the forward ordering of wholesale and retail distributors. Both reflect the filling of much of the "catching-up" needs, together with a psychology of caution. There is no shortage of consumer buying power. "Real" personal income is undoubtedly very near the December level, which was the highest since mid-1946, on a seasonally adjusted, annual basis.

Meanwhile, industrial production has dipped only slightly from the peak level of last October. It is out of line with the recent flow of new orders to manufacturers. This suggests either that ordering must revive before long, certainly not later than April, or production must be adjusted downward. We believe it is likely to be the former. We believe that normal seasonal patterns are once more in effect, after being absent during the shortage period; and that this fact, unrecognized by many observers and some business men, is much of the story of the recent relaxation in the economy.

If so, a revival of business confidence should be in the making, for seasonal factors become more favorable with the approach of Spring and the passing of the period of heavy March tax payments. A better stock market could help importantly to tip the psychological scales. Distributors' inventories in many lines are low in relation to current consuming demand, and will need (*Please turn to page* 656)





How To Avoid Excessive Taxation and Prevent Depression

By E. A. KRAUSS

It is plain that the Government's tax aims are one of the biggest question marks in today's business planning, and that tax policy as finally decided will be an important determinant of the future trend of business. As the Administration seeks to combine restrictive laws and new tax imposts with vast expenditures not fully covered by revenues, it threatens to place a serious burden on both corporate and individual taxpayers. Though along with the onset of deflation and economic readjustment, tax thinking in Congress is undergoing certain changes that render it unlikely that the Administration will get all the new taxes it asked for, the matter of tax policy remains a problem that cannot be taken lightly. Excessive taxation can lead only to economic deterioration, and we are close to the point of diminishing returns. This should be a warning to pause and reconsider.

Obviously it is poor policy to step up the taxpayer's burden until all possible savings by Government have been made, and we have seen no progress in that direction. Taxing individuals further will mean a tighter squeeze on their already weakened purchasing power. Increasing the burden on corporate business, the acknowledged main target, will seriously affect the ability of many concerns to finance maintenance and improvement of plant and equipment. At a time when the boom is slackening, such capital expenditures are important in helping to maintain a high level of national income and employment. Any encroachment is bound to intensify recession.

Thus in present circumstances, pressing for tax increases is a serious matter and could easily turn out to be a major economic blunder. The crucial question confronting business is whether the growing reluctance of enterprise and individuals to spend can be halted before it produces a sharp drop in total spending, and higher taxes will definitely work in this direction.

Taxes are already bearing down heavily. Last year, and despite the latest tax cut, Federal tax receipts amounted to some 17% of national income, and state and local tax receipts to 5.9%. The combined tax take came to some 23% of national income, and to fully 27% if payroll taxes and other such imposts are included. It means that this percentage has more than doubled in the last twenty years and presently stands not much below the 1943 war time peak.

The Burden of Indirect Taxation

But taxes today are not only notable for magnitude but for multiplicity. Their extent is represented not only by direct taxes such as those on income and property, but by a long list of excise taxes which usually become part of the retail price. They markedly swell the overall tax burden, but as it is, direct taxes alone make the nation work about 14 weeks out of the year merely to pay for govern-

mental activities and expenses.

Still the trend is towards higher, not lower taxes. Federal spending is to be stepped up without any great thought of compensating economies. And the "people's mandate" for another New Deal in Washington has started a wave of spending proposals in state capitals where hungry eyes are roving for new sources of revenue to implement local New Deals. Following the Washington pattern, social improvement via heavy spending has become the rage, with little thought of economy, and the taxpayer finds himself ground between two millstones threatening to squeeze his standard of living to a mere shadow of its former self. To many people, danger of impoverishment by taxation has become very real and highly unpleasant and at long last they are becoming vocal. Little wonder that in Washington as well as in state legislatures, the law makers are somewhat more ready to look before they leap.

Weaken Incentive, Repress Growth

While all taxes are burdensome, the greatest long run harm is done by those which weaken incentive and repress industrial growth. This refers, above all, to excessive business taxes. In considering tax legislation, Congress should carefully study the effects of new imposts on capital formation. Because of tax policies which put a distinct brake on investment, capital formation in recent years had to be built up out of earnings. Taxing corporate earnings still more, even as they tend to decline, is bound to put a severe crimp in industrial expansion, particularly since tax policy continues to make it unattractive or impossible for people to invest in equities. It is a simple fact that if our capitalist economy is to remain free and strong, and today this need is more urgent than ever, industry must be able to offer investors a decent return on their money, and tax policy must bear a definite relation to this objective. Unfortunately it doesn't, and the new tax proposals are a step further away from it. If capital expenditures fall off for lack of funds, recession is inevitable; long range impacts could well be far more drastic as Britain's experience has shown.

Let's Not Emulate Britain

Britain well before World War I lost her world industrial leadership by skimping on replacement and modernization of her plants and equipment, and this falling off of capital outlays was the direct result of shrinking capital formation because of rising income taxes, "death" taxes and an inequitable tax attitude towards depreciation policies. Failure to keep abreast in industrial development was one of the biggest factors in the decline of British power, commercially as well as politically. We in this country may not stand in danger of losing our newly won industrial world leadership any time soon; still we cannot face the problem of taxation and capital formation with complacency, if only for reasons of maintenance of a healthy economy and fiscal solvency.

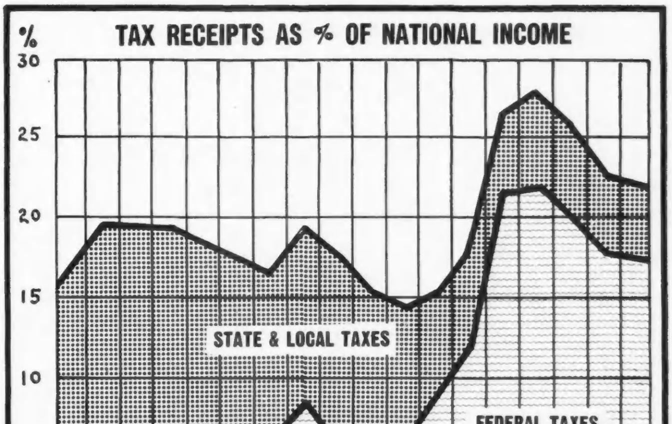
What can we do about it? The tax outlook nearly always depends on the outlook for expenditures. Most everyone wants to see the Federal Government pay its way without recurrent deficits, and certainly so in times of good business. But the expenditures today are extraordinarily high, containing many irreducible items related to war or national security. The latter naturally is paramount and its cost must be borne, but it should be planned carefully and executed economically. The way to avoid waste or extravagance is to enforce singleness of policy and coordination of effort.

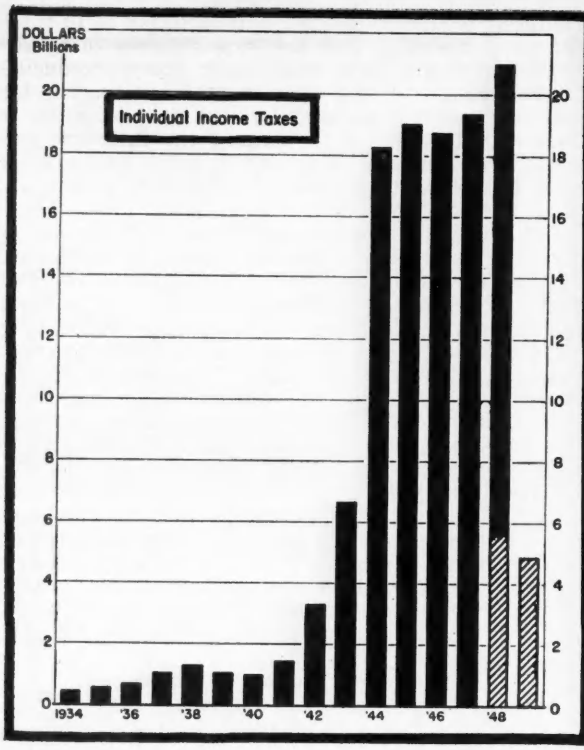
Generally, in Government, there is great need for economy and more efficiency, as amply made clear by the reports of the Hoover Commission. The Federal Government has been described as a hodge podge of duplications, overlappings, inefficiencies and inconsistencies with all their attendant extravagance. Remedial measures are imperative and could be productive of tremendous savings. Certainly it behooves us to exercise greatest restraint in respect to new expenditures, and to go easy on social experiments looking towards creation of a welfare state. In spite of a general desire to increase the welfare of all the people, we should see to it that taxes to enlarge welfare programs are kept within the confines of increased worker productivity. If not, it will eventually rob us of our "productive tools," greatly encroaching on the possibility of our advance as an industrial nation.

Government Economies Imperative

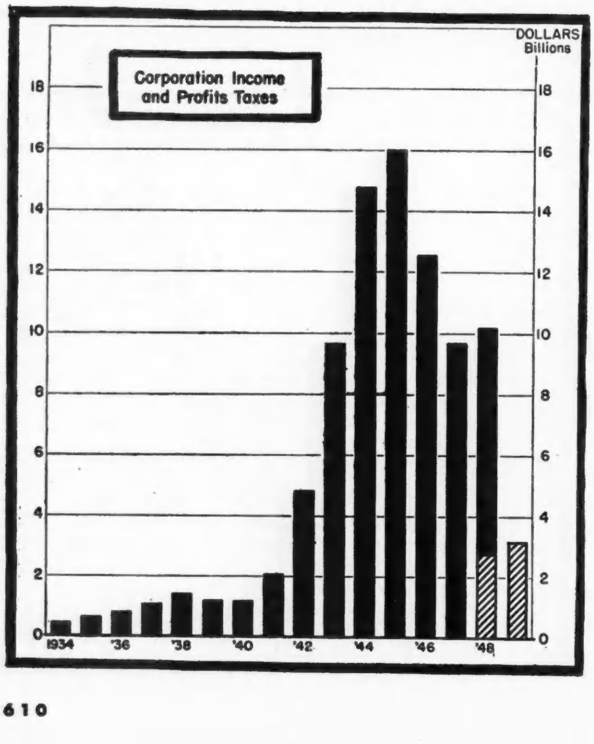
Certainly it should be possible to streamline the Federal Government and prune its well padded payrolls. Certainly we can adopt a less costly farm policy, easing its burden on the taxpayer-consumer. As it is, the farm problem is back again, bigger than ever. Over $2.2 billion of tax money has already been put into commodity loans and the total may swell to much greater proportions if bumper crosps now in prospect are being produced. Against current and prospective farm support outlays, this year's anticipated budget deficit of less than $1 billion looks small; it looks even smaller in comparison to potentials for real Government economy.

The widespread idea that most Government expenditures are untouchable and that budget balance





must be sought always by increasing taxes is as fallacious as it is dangerous. There are two basic approaches to cut the budget without endangering the functions of Government or national security. One is through Government reorganization; the other through elimination or postponement of Government activities not considered essential or urgent. Both should be carefully explored. From a purely political standpoint, this may be a Hobson's choice. From a practical and realistic standpoint



(which should be the guiding one) action along both lines is feasible, even necessary in the best interest of the nation's economic health and future.

As mentioned before, the Hoover Commission reports—and they are startling enough—have brought out the most impressive evidence on savings that can be derived from increased efficiency and better management in Government, and their recommendations should be earnestly considered by Congress. Resultant savings would run into many billions, greatly dimming the prospect of future budget deficits even while Government spending continues heavy. Mr. Hoover estimated that without changing the functions of Government, as much as $3 billion could be saved annually by improving the administration of Government departments and agencies. Additional billions could be saved by a more realistic farm policy, greater economy in defense and foreign aid programs, and in other ways.

Reduction of Government Functions

The second approach to the problem of economies is by reducing the number of Government activities not basically the function of Government. This refers to certain aspects of public works, social welfare, health and security, all of which, if carried out as proposed, would eventually require huge outlays to be financed through taxes or deficit financing. While initial expenditures may seem relatively moderate, no one can tell the ultimate cost which may come as high as $20 billion annually for health and social security programs alone. One should think that this is not the time for such experiments, what with the already heavy burden of defense spending. Common prudence dictates strict limitation of outlays in these directions.

Even rudimentary economies could readily wipe out the small budget deficits which the Administration foresees in fiscal 1949 and 1950. The former may not materialize at all, since revenues are probably greatly underestimated. Still to cover these deficits, provide a margin for contingencies (read: new spending) and permit further reduction of the national debt, the Administration has asked for $4 billion in nex taxes, chiefly on business, and another $2 billion annually in increased payroll taxes. All this on top of the extremely high tax structure which the country is already carrying.

What About Debt Reduction?

Debt reduction is a laudable aim, but not if it leads to excessive taxation that threatens our economic health and stability. Nor is excessive taxation justified as a means of economic control, as a lever to manipulate our economy. The sole purpose of taxation should be the creation of *needed* revenues. If at this time, debt retirement is impractical, we should learn to live with our debt as Britain and other countries have done and endeavor to spread it among the public rather than have it held by the banking system. But this cannot be done if the public is taxed to an extent that renders impossible the accumulation of savings.

As it now looks, we are not going to have genuine peace for many years, but we shall need costly defense programs far into the future. Under such conditions, debt reductions through increased taxation is hardly feasible. Taxes already are too high, and this is beginning to (*Please turn to page* 654)

Year-End Statements AND First Quarter Trends

By RICHARD COLSTON

Such a large majority of corporations reported increased earnings last year that estimated total corporate profit of around $21 billion will easily establish an all-time high. Comparison of quarterly reports reveals a rather steady uptrend in profits as goods became more plentiful and spending generally held high at a time when most prices held firm or even advanced. Best results were achieved in the final quarter as a rule, possibly establishing what may prove the peak in the postwar boom for many enterprises.

In view of widespread evidence in early 1949 that a better balanced demand-supply situation has taken the edge off the boom, making for more cautious buying policies at all levels and starting a considerable wave of price reductions in some sectors, it becomes interesting to weigh the potentials of various concerns for holding their gains of last year. Now that a really competitive period has emerged, increased emphasis must be placed on the status of individual firms rather than on the industry they represent, although full consideration must be given to group factors. Favorable or otherwise, as the outlook may be for a given industry, the more strongly situated concerns from now on will have a decided advantage over competitors that have mainly ridden the tide of shortage-induced prosperity. Thus excellent earnings in 1948 may be an unreliable yardstick in appraising 1949 potentials for many.

We present on the appended table statistics bearing on the 1947-48 operations of some forty concerns that reported an uptrend in earnings last year. Comparative sales, operating margins and per share earnings are shown, along with interim earnings for each quarter of 1948. In studying these representative samples, it is interesting to note that in all but one instance volume gains helped to expand earnings. While increased unit production undoubtedly contributed to larger sales, it is safe to assume that higher prices played a significant part. This is important to consider in view of the broad halt in price advances in the current year, and signs of price weakness here and there. In this respect, variations in the supply-demand factor among different industries call for close examination.

Trend of Operating Margins

As for operating margins of the concerns listed, about three quarters of them widened for one reason or another, while the others tended to narrow. Since wage and materials costs last year experienced an uptrend, as well as sales expenses in most cases, it is clear that the element of larger sales affected margins in divergent degree. In some instances increased volume more than compensated for rising costs, but in others margins shrank moderately though total income expanded. In the year now unfolding, volume of most concerns may recede slightly, sales expenses will often mount, and wages are unlikely to decline or even to remain at current levels. Thus a rather severe test will be placed on managerial efficiency and cost control.

In appraising last year's operations and what's ahead for 1949, considerable significance must be accorded to the status of expansion programs. While these are incomplete, overhead expenses are swollen by engineering costs and unproductive capital outlays

on which interest often must be paid. Experience in this respect naturally varied but it is a factor that undoubtedly distorted both margins and net earnings in many instances. Gradual completion of such programs last year, on the other hand, helped to account for the quarterly uptrend in volume and earnings reported by many firms. This factor now assumes far greater importance in 1949. Provided increased output can be absorbed at reasonable prices, the extensive modernization of facilities and rearrangement of schedules carries a strong promise of offsetting some adverse factors and maintaining margins at satisfactory ratios.

Effect of Accounting Adjustments

At the end of a record year like 1948, it was natural for managements in many directions to take full advantage of lush earnings in making ultra-conservative bookkeeping adjustments. In accepting net earnings as reported, it is wise therefore to study annual reports with unusual care from this angle in seeking a true picture of actual earnings. Increasing adoption of LIFO methods in valuing inventories, for example, in some instances cut theoretical earnings on a former basis by as much as several million dollars. These conservative policies created a very sound foundation for stabilizing earnings in 1949 if prices should soften, but they also tended to distort results last year.

In like manner, previously established inventory reserves helped some concerns to offset losses in 1948 without reducing earnings. The effect of such policies, as originally intended, was to utilize retained earnings of former years as cushion against price declines. Procter & Gamble furnished an outstanding example of this practice by crediting earnings with some $17 million from inventory reserves to compensate for inventory losses incurred. Besides such adjustments, an increasing trend has developed to set aside special reserves after establishing net earnings rather than deducting them previously, as result of pressure by leading accountants. Where this policy was adopted last year, the result was to make net earnings look more favorable than in former periods.

Inventory Aspects

In discussing inventories, it is interesting to note that despite increasing evidence in the final months of last year that the crest of the boom had been reached and that backlog orders were steadily declining, the Department of Commerce has reported that manufacturing inventories rose by $500 million in December, mainly in finished goods and with the principal gain attributable to non-durable industries rather than the durable group. As both divisions experienced a levelling off in sales during December, partially due to seasonal influences, the importance of year-end inventory positions have been pushed to the front. In relation to sales, on the other hand, inventories generally are very healthy, and as we have pointed out, values at the year-end have been carried on a conservative basis.

First quarter of 1949 reports must be awaited to appraise intelligently the progress of individual concerns in the new year. Beyond doubt, distributors of both durables and non-durables reduced their inventories during the holidays and by mark-down sales thereafter in a fairly satisfactory manner. Considering the number of lower price tags on many kinds of merchandise and the fact that total retail sales have closely equalled those of the first two months of 1948, a far larger amount of stock must have been cleared off the shelves than the dollar figures would indicate. While new order placements have been markedly slow and cautious, it appears certain that replacement demand before long will become more expressive.

The increased inventories of capital goods manufacturers and producers of many forms of other durables late last year reflected order cancellations in only an insignificant degree. Too many impatient other customers were in line to take up the slack to arouse apprehension on that score. Stepped up production to fill accumulated orders probably accounted for the gain, and if deliveries continue to be speeded up, inventories should level off or actually recede by mid-year. The basic steel industry reported record production in January, the result of the production momentum achieved by improved facilities and easier raw materials supply, and confidently expects to establish another peak in 1949. Awards of building contracts in January were also of peak proportions.

Uncertainties about higher taxes, increased unemployment and the foreign situation have naturally proved disturbing factors thus far in 1949, and the certainty of increased competition has intensified the strain upon most concerns. On balance, however, evidence strongly supports the assumption that leading concerns in most industries will be able to do quite well in the current year, though earnings may fail to equal the spectacular performance in 1949. As previously suggested, on the other hand, prospects for stable earnings or the reverse can be established only through a clear understanding of last year's individual results combined with some knowledge of current changes throughout the economy. To clarify these factors we will discuss a few concerns listed on our table.

How Bethlehem Steel Fared

Elsewhere in this issue we are discussing the outlook of the steel industry in considerable detail, allotting only brief space to comments on the status and operations of individual concerns. Among numerous units in this group that reported larger earnings last year, Bethlehem Steel Corporation is an outstanding example, hence we have included the company in our present discussion. That this concern's net earnings reached a record peak of $90.3 million or $9.36 per share compared with $4.98 in 1947 was due to several factors. Outlays of almost $189 million for construction and acquisitions over a two-year period progressively increased both capacity and actual steel production. This, combined with advanced prices, enabled sales to rise by about 30% for an all-time high of $1.31 billion. As cost of materials and wages advanced less than 25%, operating margins widened to 12% against 8.6% in 1947, thus benefitting final net. Whether Bethlehem Steel can hold these gains in 1949 will depend partly upon its success in resisting fourth round wage demands next summer and upon the outcome of tax decisions. Sales problems seem minimized by a backlog of $671 million on December 31, compared with $407 million a year earlier. Materials have developed a declining price trend and are in more ample supply. The company's shipbuilding subsidiaries will be humming with activity throughout 1949 and though production of steel should continue to expand as new facilities come into action, it appears probable that customers will promptly absorb the in-

crease. All said, the chances of Bethlehem Steel in 1949 to equal if not surpass its excellent 1948 record are pretty favorable.

An Example From the Oil Industry

Sun Oil Company, in common with most concerns in the petroleum industry, experienced its most profitable year in 1948, earning $42.8 million on sales of $447 million, a ratio of 9.58%. This excellent showing would have been even improved, had not the company adopted a new policy of charging off $7 million for accelerated depreciation of facilities added in post-war, though this sum was fully taxable. By operating refineries at 99.8% of rated capacity and expanding output of crude oil by 13.7%, margins were widened in a period when the market was taking everything the company could produced, and at advanced prices. Now that oil supplies seem to have fully reached balance with demand, competition will decide whether prices for oil products will remain at their present high level. Chances are that demand will remain fairly stable. The management of Sun Oil has expressed confidence in pushing plans to nearly double the output of one of its largest refineries and to extend its activities in building up proven reserves of both oil and natural gas. By retaining 88% of its record 1948 earnings to build up working capital, it has placed itself in a stronger financial position than ever.

Established manufacturers of floor coverings enjoyed record earnings last year and for many reasons can look to equally good results this year. The big boom in home construction and the tremendous deterioration of floor coverings in the war period still force the carpet industry to operate on an allocation basis with their customers. How insistent demand continues is shown by recent price advances announced by several of the leading carpet makers, despite numerous deflationary forces now facing other industries. Mohawk Carpet Mills, long established in its field, has spent large sums in expanding and modernizing its facilities. Sales rose 32% last year and operating margins widened to a new high of 11%. Net earnings of $2.81 per share in the December quarter were well above those in (*Please turn to page* 651)

Comparative Sales, Earnings and Operating Margins of Leading Companies

	Net Sales ($ million)		Operating Margin —%—		Net Per Share		Net Per Quarter 1948			
	1948	1947	1948	1947	1948	1947	1st	2nd	3rd	4th
Air Reduction	$94.9	$85.5	11.6%	10.5%	$2.36	$2.08	$ .50	$ .61	$ .60	$ .64
American News	179.1	168.2	3.6	3.3	5.33	4.57	.97	.78	1.09	2.49
Armstrong Cork	173.1	143.9	10.3	11.4	7.54	6.41	......	3.46 a	......	4.08 a
Bethlehem Steel	1,312.6	1,032.3	12.0	8.6	9.36	4.98	1.55	1.50	2.34	3.97
Briggs & Stratton	24.0	21.8	23.3	20.5	5.53	4.44	1.47	1.37	1.18	1.53
Burlington Mills	288.2	216.9	23.1	19.1	7.53	6.48	1.47	2.11	2.21	1.74
Caterpillar Tractor	218.1	189.1	10.3	8.5	7.32	5.29	1.55	def.58	2.43	3.91
Celotex Corp.	54.2	46.9	20.8	22.0	7.20	6.59	1.91	1.66	1.76	1.87
Chrysler	1,567.9	1,362.6	9.0	8.7	10.25	7.72	1.71	2.40	2.77	3.37
Consolidated Cigar	41.2	36.7	10.4	12.5	8.81	7.52	1.32	1.84	1.43	3.68
Continental Baking	161.2	150.3	8.4	6.1	5.84	3.86	.73	1.59	1.38	2.13
Deere & Co.	309.7	212.0	15.7	14.8	8.49	3.90	.87	1.66	2.01	3.96
Dresser Industries	108.6	80.1	11.9	9.5	7.14	3.85	1.81	1.56	1.61	2.16
Endicott-Johnson	148.6	142.0	5.5	7.2	4.11	3.27	......	1.83 a	......	2.28 a
Freeport Sulphur	24.2 g	21.1 g	23.0	18.4	5.42	3.89	1.09	1.22	1.24	1.87
Goodrich, B. F.	419.8	410.2	12.6	11.9	16.57	16.18	......	7.64 a	......	8.93 a
General Baking	110.5	103.4	6.8	4.2	2.56	1.31	.29	.45	.67	1.15
Hooker Electro Chemical	23.7	20.2	18.2	16.4	3.36	2.45	.78	1.03	.86	.69
Jewel Tea	153.0	130.5	4.1	3.9	6.68	5.58	......	3.36 a	......	3.32 a
Johns-Manville	173.5	133.9	14.5	11.4	5.22	3.17	.77	1.12	1.78	1.55
Koppers Co.	200.2	162.5	8.9	8.8	8.84	4.94	1.27	1.65	2.75	3.17
Liggett & Myers	556.5	513.8	9.7	8.1	8.86	6.83	1.69	1.90	2.82	2.45
Mathieson Chemical	31.9	24.6	32.5	27.6	5.61	3.34	.92	1.24	1.63	1.82
Mohawk Carpet Mills	61.7	46.9	11.0	9.8	7.86	5.15	1.70	1.96	1.39	2.81
Monsanto Chemical	161.6	143.4	16.7	18.2	3.95	3.59	.85	.89	.78	1.44
Nash-Kelvinator	302.9	250.3	11.7	13.0	4.46	4.16	1.30	1.09	1.16	1.08
National Supply	169.1	133.6	12.2	10.6	8.01	5.47	.73	1.55	2.28	3.45
New York Air Brake	18.6	17.6	15.0	16.4	6.35	6.19	1.58	1.32	2.11	1.34
Purity Bakeries	74.6	69.1	8.3	7.5	4.93	4.06	1.37	.98	1.06	1.52
Reynolds Tobacco	715.8	708.5	9.1	8.4	3.26	3.03	......	1.32 a	......	1.94 a
Sun Oil	447.3	356.8	12.9	9.0	8.60	5.28	......	5.01 a	......	3.59 a
Texas Gulf Sulphur	61.2	55.4	55.2	55.0	7.25	5.64	1.45	1.67	1.58	1.86
U. S. Gypsum	148.6	108.4	26.8	23.2	15.04	10.00	3.25	3.90	4.27	3.62
U. S. Steel	2,481.4	2,122.8	n.a.	n.a.	11.99	11.71	3.18	3.02	3.25	4.05
Walworth	42.4	37.6	10.4	10.6	1.95	1.71	.43	.53	.43	.56
Western Auto Supply	67.9	69.3	12.6	10.2	7.65	5.60	.77	2.08	2.39	2.41
Westinghouse Air Brake	89.9	79.0	3.1	3.9	5.00	4.22	1.20	1.30	1.16	1.34
Youngstown Sheet & Tube	381.7	308.6	16.2	14.2	17.74	13.31	3.83	3.35	4.36	6.19

g—Gross sales. a—Six months earnings. n.a.—Not available.

Deflation
Constructive .... though Painful

By WARD GATES

Union leaders face new situation under deflationary conditions

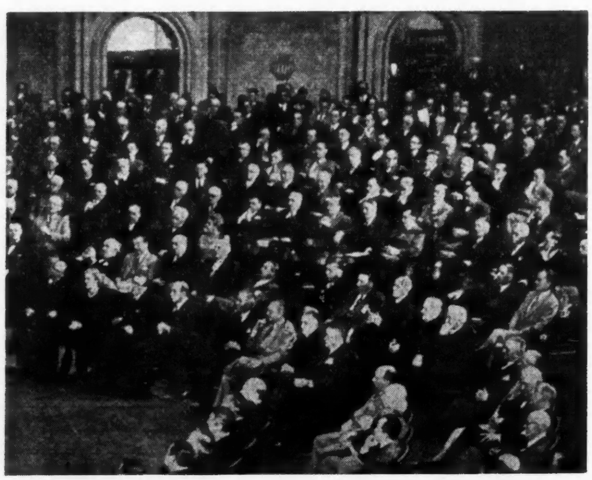
The experts may not be agreed whether the present economic adjustment will prove to be merely a "burp" or a "bellyache" (some of the extraordinary terms recently employed to describe the downturn of business that has occurred), but there is general recognition of the fact that this deflationary trend has its constructive as well as painful aspects. It may seem premature to venture an opinion whether the former will outweigh the latter; only time and the extent of deflation will tell. But if the adjustment process remains orderly and void of panicky actions, it would be a good guess to say that on the whole, constructive aspects predominate.

Let's first look at the more painful repercussions. Naturally, as far as business is concerned, declining prices may spell declining profits, not just because of the absence of former windfall profits on inventories during the inflationary period, or the threat of inventory losses as prices skid. It portends lower profits also because lower prices mean lower sales volume (unless unit sales can be stepped up), bringing business up against high break-even points.

The much criticized "excessive" profits of recent years have grown mostly from enormous volume and not from excessive profit margins. Naturally they are highly vulnerable to lower volume, and a shrinkage of 25% in sales could easily wipe out all the "excess profits" of which business has been accused, and in some cases much more. In other words, current high profits could disappear quickly without much reduction in selling prices if volume contracts either because of lower prices, declining unit output, or both. Both these factors are now operative in many industries, hence the wide concern about the profit outlook. Since it takes longer to control and reduce overhead and selling expenses than it does for volume to drop, at least some decline in earnings is hardly avoidable as deflation proceeds.

The threat of inventory losses arising from sliding prices is more obvious but also a danger against which business has erected effective safeguards that should considerably soften any blow from that quarter. Otherwise, should a drop in prices of, say, 10% to 15% occur, the resultant loss on existing total inventories (with a present dollar volume of some $54 billion) could erase a fair percentage of this year's business profits. Fortunately, inventory and contingency reserves of industry are also high, running into several billions. Besides there is protection in such inventory policies as LIFO or the hedging of raw materials purchases, which are bound to minimize inventory risks. Where such protection, and particularly adequate reserves exist, inventory losses, unavoidable as they are during deflation, will hardly be much of a threat to current profits. Since the measure of individual protection varies, so does the extent of risk involved. The decline in earnings due to contraction of volume and in the face of existing cost rigidities would appear to be a more difficult problem.

Here again, much depends on the extent of decline in respect to both, prices and unit volume. Doubtless there are definite limitations to how far prices can drop under today's conditions; any levelling off will be far above prewar. The drop in unit volume, on the other hand, will hinge chiefly on



Photos by Press Assoc.

. . . and Congress is likely to go slow with legislation hampering business

consumer attitudes but in no small measure also on business psychology. Unless businessmen get panicky, hurry into storm shelters, cut production and create mass unemployment, there will be no major recession and no abrupt and drastic falling off in demand and production. The same will be true if the mass of consumers decides not to hold off *normal buying* in anticipation of lower prices. If none of these things happen, readjustment will continue orderly and gradual to a somewhat lower level of overall economic activity. While there will be more unemployment than for some years past, unemployment compensation, for the first time, will help maintain consumer purchasing power. Unlike in previous periods of declining business activity, each job loser will not contribute to the loss of other jobs, at least not to the former extent.

The Greater Danger is Psychological

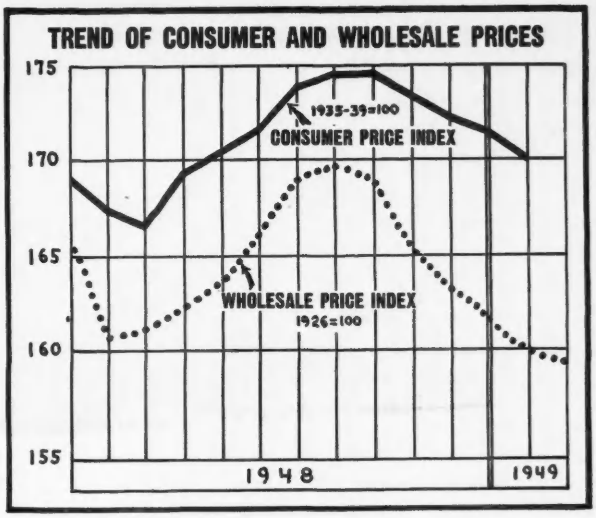
At this juncture, perhaps the greater danger is psychological; it could wipe out some of the advantages of deflation on which we rely heavily for better economic balance. Take the drop in food prices and living costs, likely to continue throughout 1949. The expectation is that savings in food costs will find their way into other channels, improving market potentials for goods now lagging because of consumer resistance or inability to buy. However, it may not work out that way at all if business men act panicky, placing a severe strain on consumer psychology. People do not spend freely when they worry about their jobs; and with immediate needs satisfied, the trend may be towards a tightening rather than a loosening of consumer purse strings.

Otherwise the prospect of lower living costs, particularly food costs, is distinctly one of the most constructive features of deflation. High prices have choked off markets and as a result, unemployment is growing. If there is a sharp enough lowering of prices, more people (those now priced out of many markets) will be buyers of other goods than mere essentials, thereby stimulating production and reemployment. It is a process that need not necessarily take a long time though the time factor in previous adjustment phases has varied. The latest commodity price break, once it is more fully translated into lower retail prices, will accelerate it.

One of the significant points in the present situation is that only a relatively small part of the population, once their savings are used up, can buy all the numerous non-essential consumer goods which our industries are geared to make. As prices go down, their buying potential will widen. Hence the need to maintain production and payrolls, and to cut prices wherever feasible. In this respect, too, deflation will be salutary in that it forces industry to greater cost-consciousness and production efficiency.

Deflation and Labor

Another advantage of deflation, already evident, is the lessening pressure by organized labor for wage increases. Labor is quite cognizant of current economic developments and the prospect is that most "fourth round" demands are likely to evaporate. The threat of shutdowns coupled with declines in living costs have considerably muted new wage and fringe demands because it is realized that most industries are in no position to absorb direct



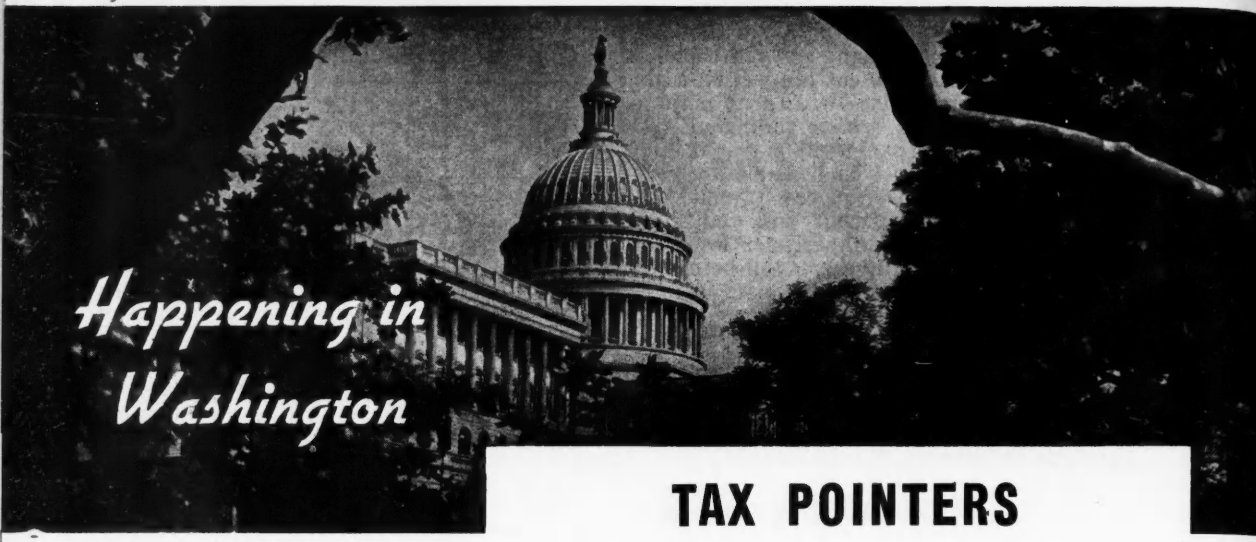
or indirect increases in costs. Rising costs at this juncture merely mean higher prices, shrinking markets, more lay-offs, smaller payrolls—none of which benefits labor.

Future emphasis may well be on lower wages in order to remove one of the worst rigidities in the industrial cost-price structure, one of the greatest handicaps to effective and efficient readjustment. Such attempts of course are only feasible in conformity with declining living costs though industrial wages in some industries have been distinctly out of line with worker productivity — something that's always a drag on industrial efficiency. Bringing wages down to better adjustment would tend to reduce at least some of the prices which consumers have to pay, and such reductions probably would be more general and more extensive on the whole than any resulting decline in worker's purchasing power.

Prices Can Be Lowered

True, wage structures are difficult to touch. Some are inclined to consider them virtually untouchable but what happened with General Motors may nevertheless be a forerunner of similar actions elsewhere. Not only the auto industry but the country at large was electrified when General Motors cut the prices for its cars and trucks in line with a pay reduction for its workers and employees under the cost-of-living clause of its wage contract. It shows that prices *can* be reduced, and though it may be the result of modest pay cuts, labor indirectly stands to benefit from it at least as much as the average consumer.

Another distinct advantage of deflation is making itself felt in Congress where it tends to lessen the urge towards enactment of hampering business legislation, and possibly obviates new controls sought by the Administration in the name of anti-inflation action. Above all, it is bound to take the steam out of the Administration drive for higher taxes on business. What with deflation and recessionary trends widely effective, there is ample evidence that Congress wants to go slow in doing anything that may place new obstacles in the way of business and orderly readjustment. Particularly important is the congres- (*Please turn to page* 650)



TAX POINTERS

By E. K. T.

LONG AWAITED, a bill to prevent the use of tax-exempt organizations and charitable and educational trusts to avoid payment of taxes, has made its appearance in the House. The declared purpose has universal approval — despite republican sponsorship in a democrat-controlled body; but there will be long argument over methods. As a starting point, it is proposed that tax exemption be stricken out if 75 per cent of the corporate income, other than capital gains, are not devoted to the avowed purpose. Posed now is the question whether to specify the exempt fields in great particularity and run the risk of missing some worthy ones, or use general language and chance new loopholes.

PRESIDENT TRUMAN, having blown hot and cold on the proposal of a longer period of aid to European countries under the Marshall Plan, is being urged by his congressional leaders to amplify and clarify. In a single press conference he declared the program probably will not be needed for the entire period of its authorization — ending in 1952 — and he also asserted that ECA must go on until recovery abroad is assured. Complete recovery is not in sight, even in Great Britain, for many years. It's not likely that the President meant complete recovery, but only a good start. But fear is expressed that his comment may cause a slow-down, halt progress.

WORKING WIVES are organizing a lobby to persuade congress to amend the Revenue Act in a manner which will give them a benefit matching the new rule allowing a husband to report one-half of his income as the earnings of his "non-working" wife — the community property section effective this year for the first time. The employed wives will pay the same taxes as before; they can't switch part of it to their husbands and gain a benefit — might even lose. Members of congress approached by the militant women reacted in amusement but will do nothing about it.

GOVERNMENT by crony comes back again with President Truman's selection of his former senate pal and fishing companion, Monrad Wallgren to be chairman of the National Security Resources Board. Government by crony first became obvious in the days of Warren Harding. Harry Truman brought it to full flower in his early White House days by making a dent in his native Missouri population.

WASHINGTON SEES:

General Motors reduction in pay accompanied by a cut in the price of its automobiles, caught the advocates of fourth round wage boosts flat-footed and has caused a scurrying around for new grounds, new arguments to keep the ball a'rolling.

Initial efforts to laugh the price cut off as an infinitesimally small one registered only briefly. It was not only the fact that the aggregate was great, but also the significance of the step taken, that stopped—temporarily, perhaps—the motion of the wage spiral.

The pay cut based on drop in living costs since Oct. 15 is only two cents an hour, but unions are reminded that the formula was one of their own creation. They'll be reminded again in April when, it now seems a foregone conclusion, a three-cent increase will eventuate under the productivity clause of their contract.

It was immediately apparent on Capitol Hill and in the government offices here that GM had built valuable good will by marking down the prices of its products — it was positive proof of willingness by industry to share with consumers the benefits of lower production costs. And it is forecast in Washington that in spite of other companies's failure to fall in line at once, there will be a change of attitude before many months pass.

Long-range implications are being read into the unheralded step by GM. The furious buying spree is seen slowing down, hence prices must be geared to a more normal market; automobile dealers are making big profits today, causing "talk"; but a reversal seems in the offing. As a deflationary move, the GM step is endowed with greater significance than apparent on the surface.

As We Go To Press

Extension of rent control is a sure thing. That isn't mere speculation; the proof is found in congressional action. The first deficiency appropriation bill to be taken up by the 81st Congress carries an item of 7.45 million dollars to maintain the office of Housing Expediter through the month of May, at which time new budgets will be considered. The expiration date of the current rent control bill is March 31. Congress passed the bill with the Expediter's funds included.

Landlords who have been fighting continued controls are in for further trouble. Set aside in the new appropriation are $300,000 to pay the cost of a checkup on price ceilings of new houses built under priorities issued as long as three years ago. That won't permit a complete review -- so the Expediter's staff will select at its own discretion. Already there are 40,000 complaints by tenants. The housing lobby charges the Expediter's office has been soliciting complaints to perpetuate itself in office -- an old bureaucratic custom!

A drive is about to begin for funds for an elaborate federal food storage program, involving construction of both dry and refrigerated space. Commodity Credit Corporation will cite the needs on a purely speculative basis -- nothing immediate, but potential. The effort probably will prove futile, for official figures show no real scarcity and the only purpose that might be served is cumulative argument for a larger federal buying program to keep the space from going to waste.

Livestock prices are snapping back from their lows and are steadying. The Department of Agriculture, following the White House line, may be expected to launch frantic efforts to sustain the Truman program by quoting statistics rather than pointing to the real causes. Actually, the approach of the Lenten season is having its effect on prices of stock now "in motion" -- there's a lag before the effect on consumption is felt. After Easter, the spring hog run will begin and pork will drop in price again, but every indication is that beef prices will stay firm. Officials here believe next Fall will see producers looking for export markets for meat. All of that quarrels with the Truman contention that prices have levelled off, will soon rise -- the inference of the argument being that new and high taxes are required for the fight on inflation.

The Argentine economic crisis is attracting attention in several bureaus of the government. It is being rated more serious than first supposed. Threat of dumping of Argentine products could have no immediate effect upon domestic prices of items produced here, but the economists are pondering its impact upon the world market.

It's safe to say, now that the congress is touching its one-third way mark, that much of the Truman Fair Deal is lost. Question now is whether confusion, uncertainty -- and obstinateness -- will delay essential legislation. The "Economic Stability Act of 1949," recently introduced in the house, is a measure to be watched. Its omnibus title is no misnomer, but it has a disarmingly scholastic ring and may make large progress before its real purport is discovered.

Contained in its passages are the inflation, deflation, and "disinflation" purposes of the numerous control bills which have appeared earlier in the session in other guise. It would confer upon the President much of the authority which existed under various War Powers Acts. Included would be setting of ceilings or price

controls; rationing, priorities, and allocations; it would extend government surveillance over production -- and it embodies the notion of government outlays to construct new productive facilities where the capacity, or interest, of private companies to do so is not readily apparent.

Administration blessing supports the bill. Argument still is being made that the grants of authority will be utilized only in case of emergency -- that they'll be held on a standby basis. Overall, the bill represents the greatest peacetime authority ever given to any Administration. Thrown in for good measure, are some provisions to control wages, but they are found to be notably weak in comparison with other sections. There is no prospect of the legislation going through in its present form; an economic collapse could cause its enactment in modified structure. It is interesting legislation in that it reflects the thinking of the Administration on how national ills can be cured -- with domestic controls virtually equalling those of wartime.

Meanwhile, the separate measures by which the White House proposed to attain the same goal aren't faring well. There will be a housing bill, but it will be based on the demonstrated need for low-rent public housing for the poorest families, and not a substitution of government for the functionings of private builders and owners.

The 4 billion added tax bill is a forgotten project. There will be continuing efforts on the part of the Administration to gain some new tax revenues but the sights have been dropping and will continue to spiral downward. The Taft-Hartley Act probably will be changed to no greater degree than would have happened had the republicans retained control of congress. Its sponsors are advocates of numerous changes, and labor is beginning to accept it as a fact that the T-H Law will be amended, not repealed; that the Wagner Act is mothballed.

The minimum wage law is headed for revision. Probable new minimum will be 75 cents an hour. But application of the statute will be reserved pretty much to the trades and industries which already are paying at least that much to all types of employees covered by the law. The distinction between interstate commerce and commerce solely within one state, is gaining a respect that will be reflected in the amended law. The congressmen are insistent that no new "sick chicken" case be invited.

Unexpected blow to the Administration's housing program has been dealt by Comptroller General Lindsay Warren, former democratic congressman (Southern style) who gives the Federal Public Housing Authority anything but a clean bill of health. The Truman proposal for a 17.8 billion dollar plan would place much of the administration and control under the same agency which, however, now operates under the title of Housing and Home Financing Agency.

Said the Comptroller General: "Every account in the general ledger is either in error, inaccurate, or incomplete. The lack of adequate fund controls has been the cause of a large number of errors." To this the house appropriations committee report for last year's operations, added: "The past record of the Public Housing Administration is replete with instances of maladministration and deplorable abuses of public property and funds."

The White House has not yet spoken its piece on credit controls but the subject is entering into discussions before several committees of congress. Rep. Wright Patman, Texas democrat, who exercises great influence in that field, has come out with the suggestion that the present one-third down payment on automobiles should be retained, but that a period of 24 months should be allowed for payment, in place of the 18 months restriction now in force.

Meanwhile, there is no discernible attitude to hurry to completion legislation on farm price support, civil rights guaranty, federal aid to education, universal military training, ratification of the St. Lawrence Waterway project, or national health insurance.

What is behind the British Gold Deal with South Africa?

High cost of mining operations is factor in move to higher gold price

By V. L. HOROTH

It has been known for some time that South Africa, the world's largest producer of gold, has been threatening to withdraw from the membership of the International Monetary Fund unless it is given permission to dispose of at least a part of its newly mined gold at prices above the international official parity price of $35 per fine ounce. But while the Fund authorities have apparently fought the move that ultimately might result in a broadening of the sale of gold at premium prices and wreck the Fund's controls over the price of gold, the economic conditions in South Africa have been getting progressively worse.

Early in February the deadlock was broken. The South African Finance Minister, Mr. N. Havenga, came out with the statement that his Government had decided to sell 100,000 ounces of high grade gold alloy (22 carat*) over a period of eight weeks at a price that works out at about $41.50 an ounce for pure gold. The amount to be sold represents roughly 5 per cent of South Africa's gold output during the eight-week period, and the "bonus" that the sale will result in, will be about $650,000, which, of course is not much.

Although the Fund authorities were first reported to have given "a full approval" it appears that they later asked the South African Government to postpone the sale of gold pending examination of the guarantees that "gold would be sold only for legitimate industrial, professional and artistic purposes." Also any further sales were to require individually the Fund's approval.

In rebuttal, the South African Government reiterated its determination to sell the newly-mined gold at premium prices. To comply with the Fund's rule to sell only for "legitimate purposes," the intention apparently is to manufacture some kind of a "gold ornament" out of alloy gold which will then be sold in the world markets, preferably for hard currency.

Who will buy these ornaments of "natural" gold? Certainly not the dentists or artists or any other professionals *who in the United States, Great Britain and other countries can get all the gold they legitimately use from the Treasuries or Central Banks through licensed dealers at the official price of $35 per fine ounce.* It is a foregone conclusion that the gold sold by South Africa would go into private hoards. Nobody really knows how much gold is annually "consumed" by arts and industries. The U. S. Bureau of Mint estimates that the amount may be around $100 million a year. On the other hand, the experts of the Union Corporate of London say that arts and industries have been absorbing about $300 million worth of gold annually.

The reaction to South Africa's move in world gold markets has been interesting. In many quarters it was considered to be in the nature of "a foot in the door" in respect to general up-valuation of gold the world over. In Mexico, for example, South Africa's move brought about a general scramble for gold, much of which is held privately from the days when the Mexican Government used to sell gold coins at a price that worked out at about $38.50 per fine ounce — until the Monetary Fund stopped the practice. During the recent buying spree in Mexico, gold went up to the equivalent of $42 per fine ounce. The somewhat panicky buying spread to dollars, with the result that the Mexican peso declined sharply until the National Bank stepped in and began to support it by selling dollars.

In other quarters it is beginning to be realized that South Africa's plans to sell gold alloy "ornaments" at a premium price may, if carried out, wreck the Fund's efforts to keep the newly-mined gold from flowing

*Pure gold is 24 carat.

into private hoards. What is to prevent the producers the world over, in Canada, Australia, West Africa, Mexico, Colombia, the Philippines, and possibly even in our own country from demanding that they too be allowed to sell at least a part of their output at a premium, either because of high production costs, or because of the hard exchange that could be earned?

Free Market Operations

Although more gold is reported to have changed hands in free markets last year than ever before, the free markets are reported to be starved for the metal, partly because of the heavy demand on the part of Chinese refugees, and partly as a result of the Monetary Fund's appeals to Mexico and other Latin American countries to stop the export of gold. However, Mexican nationals have been free to buy alloy gold and some of it unquestionably has been smuggled out and sold in free markets. All this explains why in Macao (Portuguese city-colony near Hong Kong), for example, gold has been selling at a price above $100 per fine ounce, and why the prices in Alexandria, Beyrouth, and Tangier have ranged from $65 to $80 per fine ounce.

In some of these markets, according to the latest reports, gold prices show some weakening. In Paris, the price of gold dropped in recent weeks from the equivalent of about $60 per ounce to less than $50 an ounce; the dishoarding of gold on the part of French peasants may have been a contributory cause. It must be remembered that the amounts of gold traded from day to day in free markets are not very large, and that a relatively small amount may upset the market.

Should South Africa's action be taken as an indication that the currency price of gold is about to be raised? Or, to put it in another way, is there a likelihood that the International Monetary Fund will propose a devaluation of the member currencies, dollar not excepted, in terms of gold?

Frankly, as we have stated before, we believe that the chances of such action are slight. To begin with, under the Fund's statutes, a proposal for raising the price of gold on an international scale may be vetoed by any member holding more than 10 per cent of the voting rights, which means the United States and Great Britain.

Second, as far as the United States is concerned, a change in the official dollar price of gold would require congressional action. While senators and congressmen from "silver states" are always anxious to do "the right thing" for gold and silver, in recent years most of the proposals for raising gold or silver prices have not even gotten out of committees.

As we have again and again argued, the raising of the price of gold, and the subsequent inflow of the metal, would have serious inflationary implications. Foreigners would unquestionably hurry to cash in their fictitious "gold profits" by buying our goods, and as a result, our somewhat lagging exports would undoubtedly get a shot in the arm. There would be a flight into goods the world over, and whatever confidence has been built in individual currencies, the raising of the gold price would probably dispel it. In the end, the world would probably produce more gold, but the maldistribution of gold reserves would be worse than ever. Briefly, any tampering with the international official price of gold at this point would be worse than useless.

On the other hand, South Africa's action may mean that the Fund's opposition to the establishment of free gold markets and to putting more gold in the hands of the people is weakening. The putting of gold into circulation, particularly in Western Europe, would help to mop up the surplus purchasing power. Once the demand is satisfied, the gold premiums would decline.

Is Currency Devaluation Considered?

Most likely, however, South Africa's action indicates that the authorities in Pretoria may be considering the devaluation of the South African pound as the easiest way of solving the balance of payment problem, and at the same time preserving the "hothouse" prosperity of the country. However, devaluation, as will be seen, would not solve permanently South Africa's economic ills — the over-dependence on gold. Neither would devaluation automatically

South Africa: Business and Finance Statistics

(Monetary Unit—S.A. Pound)

End of Year	Reserve Bank Gold (000,000£)	Reserve Bank Foreign Exch. a) (000,000£)	Exports Merch. (000,000£)	Exports New Gold (000,000£)	Exports Total (000,000£)	Imports Merch. (000,000£)	Balance (000,000£)	Gold Output (000,000£)	Prices Dom. Goods 1937=100	Prices Imp. Goods 1937=100	Business Activity 1938=100	Money Supply (000,000£)	Nominal Capital of New Corp. (000,000)
1937	38	8	43	......	......	103	......	......	100	100	......	90	......
1938	44	8	33	......	......	96	......	......	105	101	100	98	......
1939	61	9	34	91	125	91	......	99	101	101	101	102	5.3
1945	229	62	78	80	158	112	+46	105	150	170	165	334	42.2
1946	235	18	97	101	198	215	—17	102	158	168	197	359	103.8
1947	191	61	100	98	198	295	—97	98	163	180	204	408	98.3
1948													
March	109	82	10.0	8.5	18.5	27.0	— 8.5	8.5	165	189	228	433	5.9
June	93	73	10.0	8.4	18.4	27.0	— 8.6	8.4	166	211	234	422	10.6
September	67	56	11.0	8.2	19.2	31.9	—12.7	8.2	170	210	......	417	3.9
October	59	53	12.3	8.3	20.6	32.2	—11.6	8.3	171	210	......	421	......
November	49	45	15.0	8.3	23.3	31.8	— 8.5	8.3	......	......	......	413	......
December	46	36	......	......	......	......	......	......	......	......	......	......	......
1949													
January	44	22	......	......	......	......	......	......	......	......	......	......	......

restore the prosperity of gold mines.

Like Argentina, the Union of South Africa has been enjoying an unprecedented business boom, the peak of which was passed some time ago. As in Argentina, whatever is left of this boom is threatened by a rapid deterioration of the balance of payment position. The shortage of dollars and foreign exchange is not only endangering South Africa's industrial expansion program, but may force existing industries to curtail their activity because of the shortage of imported raw materials and equipment. Unemployment and a shortage of goods are a possibility.

Boom—and Aftermath

One year ago, when the cold war between the East and the West was growing in intensity, South Africa looked like "the promised land" to British, Swiss and other Western European capitalists. Here was a country with a tremendous wealth of such strategic materials as manganese, chrome, copper, diamonds, graphite, and even some uranium ore deposits. New gold fields, promising to be fully as large as the old Wiwatersrand, were waiting for development. Moreover, the rapidly developing areas to the north looked like promising markets for the products of the Union's manufacturing industries. The Government was easy going, favoring free enterprise, and taxation was ridiculously low compared with the United States or Great Britain.

The conditions were ripe for a heavy inflow of outside capital. From the summer of 1946 to the spring of 1948, the net inflow of capital to South Africa was estimated to have exceeded $800 million, or about one-half as much as was invested in the country during the 65 years prior to the Second World War. A tremendous investment boom ensued, helped by the wartime accumulation of South African capital. Meanwhile the inflow of capital also helped to finance a great expansion in imports without affecting the monetary reserves. In fact, South Africa felt so rich that it lent £80 million in gold to Great Britain in the spring of 1948.

Flush with money and anxious to get goods, South Africa turned to this country for the bulk of her imports, particularly industrial machinery and transportation equipment. Our exports to South Africa quickly expanded from $227 million in 1946 to $414 million in 1947, and by the middle of 1948 they had reached an annual rate approaching $600 million.

Prosperity Hopes Jolted

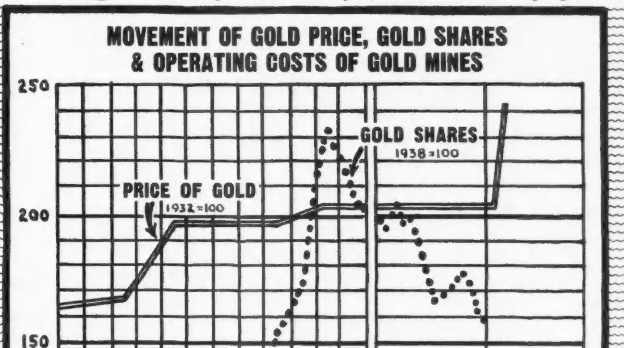
The hope that an era of prosperity lay ahead received a jolt when the Government of General Smuts fell and the Nationalist Government of Dr. Malan was installed. The anti-gold-industry and anti-British platform of the new Government was sufficient to create a scare among the British capitalists in particular, and to turn the inflow of capital into an outflow. This revealed the artificiality of South Africa's international payment position, but the Nationalist Government, anxious to placate business and industry, did nothing. By the time it got ready to take action, "the barn was empty." The country's gold and foreign exchange holdings, which had stood at some £252 million (see accompanying table), had dropped by the beginning of November, when the import controls were imposed, to less than £100 million.

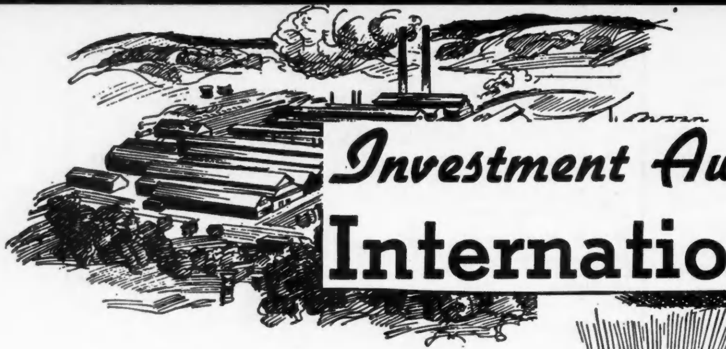
The import restrictions were drastic and retroactive, testifying to the Nationalist Government's confusion and miscalculations. Importers of goods from the United States and Canada were told that they would receive during the year, July 1, 1948 to June 30, 1949, only 50 per cent of the dollars they were allotted in 1947. That meant a reduction of imports from the dollar area to about one-fourth of the mid-summer 1948 volume. Many of the importers, particularly of automobiles, had used up their quotas at the time when the restrictions went into effect. A long list of imports, mostly (*Please turn to page* 648)

South Africa: Balance of Payments

(in millions of S.A. pounds)

	1946	1947	1948 Prelim.
DEBITS (current account)			
Imports (merchandise)	£ 214	£ 295	£ 350
Freight and shipping	19	20	26
Dividends	18	18	18
Donations (UNRRA etc.)	3	25	......
Other debits	4	......	......
Total Debits	£ 258	£ 358	£ 394
CREDITS			
Exports (merchandise)	£ 87	£ 100	£ 130
Nonmonetary (newly mined) gold	101	97	101
Gov. receipts and other	5	5	......
Total Credits	£ 193	£ 202	£ 231
DEFICIT in current a/c	£ 65	£ 156	£ 163
Gain of monetary gold	— 6	......	......
Loss of monetary gold	......	+ 44	+145
Net	£—71	£ 112	£—18
Approximate capital inflow	£+74	£ 115	......





Investment Audit of International Nickel

By GEORGE W. MATHIS

Unlike most mining companies, International Nickel Co., appears headed for substantial improvement in earnings this year. This major producer of nickel enjoys many advantages contributing to stability in earning power that ordinarily are chiefly evident in manufacturing enterprises. In a period when deflationary forces are depressing prices of metals and other commodities, therefore, shares of this company have special appeal for their defensive characteristics.

The company, which had its origin almost 70 years ago as result of a discovery when the Canadian Pacific was under construction, produces from 75 per cent to 85 per cent of the world's nickel output and, because of such monopoly, controls prices of the product. Nickel is used primarily in the steel industry, being an essential component in stainless steel, and accordingly demand is influenced to a large extent by industrial activity. Because output moves primarily into consumer goods channels, operations are less cyclical than might be supposed, considering this dependence on steel production.

Although earnings naturally are influenced by metal prices as well as by volume of production and labor costs, the company has a distinct advantage in governing quotations on nickel, which represents about half the company's metal output. Moreover, constant growth in uses tends to counteract minor recessions in normal consumption. To some extent costs can be controlled by selection of particular types of ores to be mined. As an example, during the war, when profits were subjected to prohibitive tax rates, production was shifted to lower grade ores. This action also served to stretch reserves of high grade ores.

In appraising the company's outlook, stress should be laid on characteristics accounting for stability in production and earnings thereby minimizing speculative factors, on the company's strong financial position, on its substantial reserves and on virtual immunity to competition.

Unique alloying qualities give nickel a strong competitive position. Supplies outside of the company's properties are believed to be limited. Hence, even though the trend in the steel industry has been toward lower nickel content in alloy steels, broadening uses and increased productive capacity have accounted for greater consumption of the metal. Moreover, the company's policy of holding down nickel's price has successfully combated competition from molybdenum.

United States industries normally take between two-thirds and three-quarters of International Nickel's output of nickel, and of this total the steel industry usually accounts for more than half. In producing stainless steel, an alloy of 18 per cent chrome and 8 per cent nickel is utilized, thereby explaining an important outlet. Numerous other steel alloys require smaller amounts of nickel. Substantial quantities also are used in copper and brass fabricating and in electroplating. Demand for coinage purposes has experienced consistent growth.

In the production of armament, nickel is essential and during the war, operations in International Nickel's plants reached new high records. Although American military authorities have evidenced their confidence in being able to turn to Canada for nickel in event of hostilities, it is believed the Munitions Board favors stock-piling nickel as well as other strategic metals. Accordingly, now that Government agencies have undertaken an aggressive program for acquiring raw materials, it is believed that significant quantities of nickel will be stored. Additionally, the fact that demand for nickel is governed chiefly by activity in the steel industry — which appears destined to maintain a high rate of production this year — holds greatest promise for continued prosperity in 1949 for International Nickel.

Price Stability and Demand

Management has deliberately encouraged demand for its product by maintaining price stability. For about twenty years from around 1925 or 1926, a price of slightly less than 30 cents a pound prevailed. During the war, when wage costs rose sharply and supplies advanced, the company announced a small increase of about $3\frac{1}{2}$ cents and last July another advance of $6\frac{1}{4}$ cents a pound was put into effect to compensate for postwar cost rises. This change lifted the price of nickel to 40 cents a pound, including an import duty of $1\frac{1}{4}$ cents. Altogether the price ad-

vances came to about 25 per cent. This contrasts with increases of 100 per cent to 200 per cent in copper and other non-ferrous metals. In fact, the price of lead currently is ten times its depression low, whereas nickel was increased relatively little in comparison.

Because of a lag of three to four months in effectiveness of price increases in contracts for nickel, the company gained little benefit from higher quotations for the metal last year. For the most part, shipments prior to December carried the lower price. On 1949 shipments, however, the 40-cent quotation will be generally uniform, suggesting that on volume comparing with the 1948 total, gross receipts may increase importantly. Production has averaged upward of 200 million pounds annually in recent years, and the advance of 6¼ cents a pound alone would mean an additional revenue of more than $12.5 million, or almost $1 a share, before taxes.

Other Metal Production

Copper, platinum and other metals are produced in conjunction with nickel, however, and because output of copper is virtually as large as nickel, it is necessary to find a market for large quantities of the red metal. In recent years, the advance in copper prices from the wartime ceiling of 10 cents a pound to 23½ cents has enabled management to offset rising costs and at the same time to hold down the price of nickel. From now on, however, copper prices may recede and some of this postwar advantage may be lost. It was for this reason that the price of nickel was raised last summer. Indications point to widening in margins this year in spite of a possible setback in copper prices to 16-18 cents a pound.

Production last year apparently compared favorably with peak wartime output, since sales in the first nine months showed an improvement of about 17 per cent over the corresponding previous period. Earnings on a share basis rose to $1.95 from $1.51 in the first nine months of 1947. Assuming a pick-up in the fourth quarter, reflecting higher quotations, net profit for the year may have come to $2.75 a share, compared with $2.17 in 1947 after a contingency charge equal to about 21 cents a share. Further progress should be realized for the current quarter, when net may reach 75 to 85 cents a share, suggesting the possibility of 1949 earnings in the proximity of $3.25 to $3.35 a share. This would compare with the peak established in 1937 when net profits came to $50.3 million, equal to $3.31 a share.

Importance of Copper Output

Importance of copper as a factor affecting nickel earnings is not generally realized, for many observers fail to appreciate the fact that copper contributes almost one-third of gross revenues. This may be better understood by a comparison of sales breakdown for recent years when tonnage sales of refined copper came close to or exceeded those of nickel.

From these figures it may be

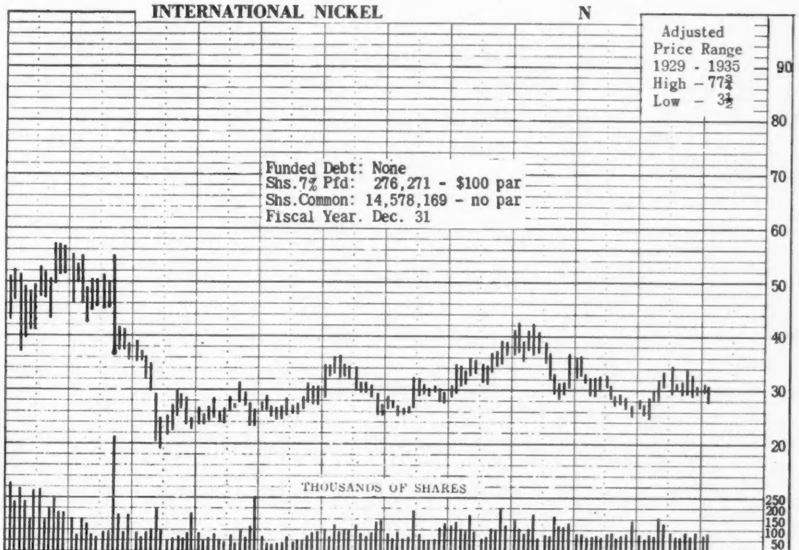
Comparative Balance Sheet Items

	Dec. 31, 1940	Sept. 30, 1948	Change
	(000 omitted)		
ASSETS			
Cash	$ 31,279	$ 28,713	—$ 2,566
Marketable Securities	26,955	68,973	+ 42,018
Receivables, Net	12,861	18,005	+ 5,144
Inventories	32,503	63,853	+ 31,350
TOTAL CURRENT ASSETS	103,598	179,544	+ 75,946
Plant and Equipment, Net	158,121	125,469	— 32,652
Other Assets	17,446	20,205	+ 2,759
TOTAL ASSETS	$279,165	$325,218	+$46,053
LIABILITIES			
Accounts Payable and Payrolls	$ 6,721	$ 11,810	+$ 5,089
Accrued Taxes	21,393	16,006 (a)	— 5,387
Other Current Liabilities	483	484	+ 1
TOTAL CURRENT LIABILITIES	28,597	28,300	— 297
Reserves	28,280	24,532	— 3,748
Preferred Stock	27,628	27,628	....
Common Stock	60,767	60,767	....
Capital Surplus	60,606	60,606	....
Profit and Loss Surplus	73,286	100,495	+ 27,209
TOTAL LIABILITIES	$279,165	$325,218	+$46,053
WORKING CAPITAL	$ 75,001	$151,244	+$76,243
CURRENT RATIO	3.6	6.3	+ 2.7

(a)—Tax reserve.

noted that the rise in copper prices from the low wartime ceiling to above 20 cents a pound since the war has been an important contribution to gross revenues. Average prices of copper and nickel, based on Canadian Bureau of Statistics compilations, are shown in the tabulation below (cents per pound):

	Copper	*Nickel*		*Copper*	*Nickel*
1948	23.5*	40.0*	1941	10.00	24.3
1947	20.25	29.8	1940	10.00	24.3
1946	12.68	24.5	1939	10.00	22.5
1945	12.48	24.5	1938	9.93	25.5
1944	10.00	25.2	1937	12.97	26.5
1943	10.00	24.9	1936	9.40	25.9
1942	10.00	24.5	*latest		



1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	
2.09	2.39	2.31	2.22	2.15	2.00	1.71	1.58	1.90	2.16			EARN.
2.00	2.00	2.00	2.00	2.00	2.00	1.60	1.60	1.60	2.00	2.00		DIV.
63.8	66.5	75.0	83.0	88.8	96.9	106.7	122.2	138.0	144.1	•		Wkg.Cap.$Mil.

In the impending return to more keenly competitive conditions, International Nickel's favorable position becomes evident. Its principal source of income, nickel, is virtually immune to competition and the price is almost certain to remain firmly established. Accordingly, the company is well situated to absorb concessions on copper. Moreover, as copper prices fall, marginal producers will be compelled to drop by the wayside and any threat of overproduction will be automatically corrected. International Nickel is recognized as a low cost copper producer and would not be handicapped by a reasonable drop in the price of the red metal. In addition, income from platinum and other metals also tends to offset nickel mining costs.

Added Revenue from Price Increase

On basis of indicated 1948 output, or of average in recent years, the advance of 6¼ cents in the price of nickel would mean an addition in sales volume this year of between $12 and $13 million, whereas a decline of 5 cents a pound in copper would reduce gross income about $10 million. But a drop of as much as 5 cents in copper may prove an extreme assumption if United States stockpiling operations continue on a large scale. Prospects point to improvement in income this year of $3 million or more before taxes and if no further increases in wages are necessitated, the likelihood of improvement in net profit would be strengthened.

Meantime, the company continues to enlarge its reserves and to improve properties. Proven ore reserves have been maintained at well above 200 million tons for some years despite the fact that an average of about 10 million tons of ore has been mined annually since before the war. Production in 1947 of 10.4 million tons was typical, and in that year reserves were enlarged to 221.8 million tons containing almost 7.2 million tons of nickel-copper, from 217.1 million tons at the end of 1946 having an estimated content of 6.9 million tons of nickel-copper. Ten years ago, reserves were estimated at 212.4 million tons containing 6.8 million tons of nickel-copper. From this record it may be seen that despite heavy wartime drain on the company's properties, reserves have actually increased in the last decade. At the rate of current output, reserves would be sufficient to last for about 35 years. So far as can be seen, however, new reserves should be developed as fast as ore is mined for some time to come.

Confidence of management in long range prospects is evidenced by continuous improvement in plant processes and technical research aimed at enlarging uses of nickel and at bettering mining methods. The company's efforts in stimulating demand for nickel in metallurgy have contributed in no small measure to progress in stainless steel and other products.

As a case in point, successful development of a new material known as "ductile cast iron" recently was announced. Advantages of fluidity, castability and machinability characteristics of gray cast iron are combined in this new material with the peculiar qualities of cast steel. The new iron is said to "close the gap" between cast iron and cast steel. Physical properties such as high-yield strength and ductility suggest its wide desirability and suitability for many applications long regarded as outside the scope of cast iron. The product is obtained through introduction into the iron of a small amount of magnesium or magnesium-containing agent, such as nickel-magnesium alloy.

Prospects of New Markets

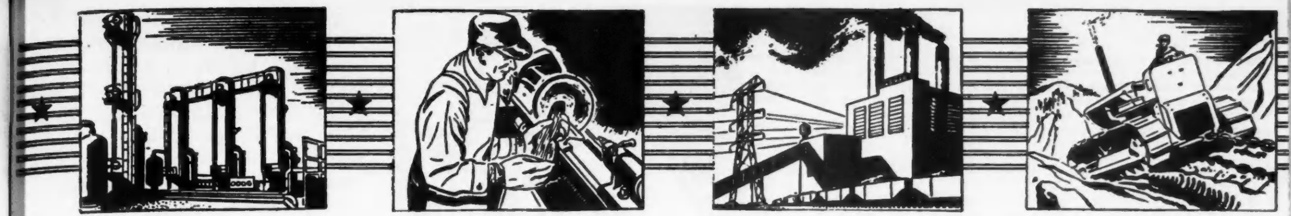
Substantial markets are envisioned for the product, since it is believed that because of its ductile properties, it may give superior performances in items such as railroad car wheels and ingot moulds. It would be ideal also for engine, furnace and other parts subject to extreme temperatures.

With pressure increasing for changes in the price of gold or a readjustment in Canadian exchange rates to take into account the Canadian dollar's discount of about 10 per cent, International Nickel is interesting as a potential beneficiary of such a move. Although bulk of sales undoubtedly would continue to be made in United States dollars, receipts could be converted into Canadian dollars on more favorable terms — assuming that the current official rate were modified in line with actual conditions. Hence Nickel's income in terms of Canadian dollars would be enlarged, and it need not be pointed out (*Please turn to page* 648)

Long Term Operating and Earnings Record

	Net Sales ($ million)	Operating Income ($ million)	Depr. & Depl. ($ million)	Operating Margin —%—	Net Income ($ million)	Net Profit Margin —%—	Net Per Share	Dividends Per Share	Price Range 1948-49
1948 (9 mos.)	$141.2	....	....	....	$29.9	21.2%	$1.95	$2.00(a)	34⅛-24⅞ a)
1947	166.4	$60.5	$ 7.6	36.4%	33.5	20.1	2.17	2.00	36⅞-27½
1946	133.1	45.7	7.1	34.3	29.7	22.3	1.90	1.60	42⅞-28⅛
1945	148.1	50.8	13.5	34.2	25.0	16.9	1.58	1.60	39½-28½
1944	170.0	58.5	12.8	34.5	26.9	15.8	1.71	1.60	32¼-25½
1943	170.5	64.2	12.7	37.8	31.1	18.3	2.00	2.00	36½-25
1942	169.6	72.9	13.1	43.2	33.3	19.6	2.15	2.00	30⅞-24⅛
1941	169.7	76.0	12.9	45.0	34.4	20.2	2.22	2.00	31⅜-23
1940	143.7	66.7	7.6	46.5	35.5	24.7	2.31	2.00	38⅞-19⅜
1939	126.5	56.4	7.3	44.8	36.8	29.1	2.39	2.00	55¾-35
1938	107.2	46.9	7.0	43.3	32.4	30.2	2.09	2.00	57⅝-36⅞
10 Year Average, 1938-47	$150.5	$59.9	$10.2	40.0%	$31.9	21.7%	$2.05	$1.88	57⅝-19⅜
4 Year Average, 1938-41	$136.8	$61.5	$ 8.7	44.9%	$34.8	26.0%	$2.25	$2.00	57⅝-19⅜

(a)—Full year.



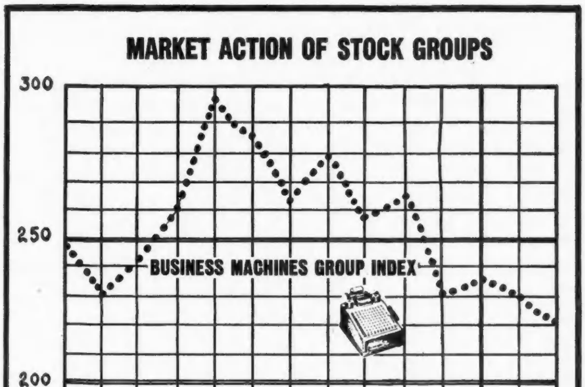
1949 Special Re-appraisals of Values, Earnings and Dividend Forecasts

★ ★ ★

Prospects and Ratings for Steels, Building Shares, Office Equipments, Specialty and Unclassified Stocks

Part III

American business enters the fourth full postwar year with the conviction that 1949 will be a year of major readjustment. Though the nation's basic economic health is good, we are witnessing many conflicting trends and forces that are beclouding the outlook. Generally in the past few months, business has shown signs of slackening in many directions and the cracks that are showing in our inflated price structure are likely to deepen some more before it will stabilize on a new plateau. Overall, the trend is towards more normal relationships in free competitive markets.



As it is, not only are we in the midst of transition from postwar boom to some level of readjustment, but we are also in transition to a new phase of the cold war, involving enormous Government spending both at home and abroad. Additionally, we seem in transition to a new phase of economic planning with increased emphasis on social benefits, on more Government guidance of industry, and the prospect of new tax burdens. All of which is bound to affect vitally the future of business generally and the outlook for specific industries and companies.

To assist our readers in arriving at sound investment decisions under changing conditions, The Magazine of Wall Street presents its Security Re-appraisals and Dividend Forecasts at six months intervals, in addition to its regular coverage of important developments. By this method, the maximum number of industries are periodically reviewed on the basis of latest information, supplemented by statistical data for ready comparisons. Additionally, brief comments on the status of each company listed are presented.

The key to our ratings of investment quality and current earnings trends of the individual stocks — the last column in the tables preceding our comments — is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1 — Upward; 2 — Steady; 3 — Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a W in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*

★ ★ ★

Is STEEL Supply Near Balance?

By J. C. CLIFFORD

There is general agreement that steel supply, tight for years and a factor that severely hobbled steel consuming industries in the postwar production race, is now getting closer to balance with demand, that the pipelines for steel products are being increasingly filled. This doesn't mean overnight disappearance of the steel shortage; steel at this writing is still tight. But it means that before long, a more normal flow of steel to steel consuming industries can be expected though demand is not likely to become a problem for a good many months despite the prospect of new record production in 1949.

Considering that demand for steel during 1949 is likely to continue big enough to absorb all the metal the industry can produce, regardless of greatly expanded capacity in the last few years, a very favorable climate for sustained high earnings is indicated. Steel ingot capacity at the beginning of 1949 had risen to 96.1 million tons, an historic peak and comparing with 91.9 million tons three years earlier. In January, actual production hit a new monthly record of 8 million tons and during most of February, ingot output was maintained at a rate around 100.5% of capacity. Furthermore, planned expansion in 1949 should add some 2.2 millions tons of capacity, part of which should become effective later in the year. In 1950 another half million tons should swell the score.

More significant than statistics of capacity, however, are those involving production of finished steel products. Work interruptions, scarcity of coal or pig iron and other basic factors often reduce output well below rated capacity. Last April's coal strike, for example, probably prevented 1948 production of ingots from equalling the 1944 war peak of 89.6 million tons compared with actual output of 88.5 million tons. But notwithstanding this handicap, shipments of 65 million tons of finished steel last year were at an all-time peak, and the industry envisages a new mark of 68 million tons in 1949.

This estimate carries weight because the processing of ingots is very flexible; they can be fashioned into bars, plates, sheets, rods, wire or fabricated beams at a rate commensurate with what shifts in demand may develop for these various items. Quite clearly the postwar scramble for steel by manufacturers of radios, washing machines, vacuum cleaners, ironers and many household appliances has greatly diminished, although demand in these areas seems sure to remain far above prewar. As an offset to reduced steel orders from this source, though, demand for steel pipe from the oil and natural gas industries will remain insistent throughout 1949, while major units in the automotive industry confidently expect to step up production to new records because of an improved supply of steels and strip steel. Backlog orders of the railroad equipment industry will require consumption of large amounts of steel if the established goal of 10,000 cars a month does not fade as a result of laggard ordering by the roads. Capital goods industries generally will continue to be large steel consumers in the months ahead.

Continued Large Steel Needs for Construction

A prospective decline of perhaps 15% in industrial construction in 1949 seems likely to be compensated for by increased building of public works, such as bridges, hospitals, schools and other institutions. Then Washington planners supporting the new Public Housing Program are now advocating construction of large structures to provide low rent apartments rather than individual homes. Should these policies prevail, fabricated steel rather than lumber will be in heavier demand, the same holding true for all public works. The Defense Program as presently constituted has not substantially enhanced sales potentials of the steel industry, because of its emphasis on aircraft building that leans heavily on non-ferrous metals for primary requirements. When and if the Western Defense Pact, on the other hand, becomes a reality and we may have to supply billions of dollars of weapons to our European Allies, it is possible that our present stocks of steel consuming armaments may have to be expanded or replaced.

Statistical Data on Leading Steel and Iron Companies

	Net Per Share 1948	Net Per Share 1947	Divs. Per Share 1948	Divs. Per Share 1947	Div. Yield‡	Price-Earnings Ratio†	Recent Price	Range 1948-49	Investment Rating	COMMENTS
Acme Steel	$7.27	$7.58	$4.00	$4.25	8.2%	6.8	$49	55½-44⅜	B2	Producer of strip steels and specialties. Sales potentials enhanced by expansion and acquisitions. No variation in $1 quarterly dividend expected.
Allegheny Ludlum Steel	5.05	4.66	2.00	2.00	8.3	4.8	24	34 -23⅜	B2	Substantial plant improvements, partially completed, should sustain volume, with demand for alloys and stainless steel remaining strong. Dividend stability seems certain.
Armco Steel	8.00 E	7.44	2.00 b	2.00	8.0	3.1	25	32½-23⅝	B2	Promising outlook indicated by sustained demand for sheets and spiral welded pipes. Ample earnings assure dividend continuity with possible extra later.
Bethlehem Steel X	9.36	4.98	2.40	2.00	7.7	3.3	31	39¾-30⅜	B2	Ranking high as producer of steel, fabricated items and ships. Further volume gains probable in 1949, with earnings maintained at high level. Dividend widely covered.
Byers, A. M.	7.39	4.92	1.25	.50	6.2	2.7	20	27⅞-16	C+3	Largest maker of wrought iron pipe, currently in strong demand due to shortage of steel pipe. 1949 dividend safe with possible year end extra.
Carpenter Steel	4.32	6.38	2.50	3.00	7.8	7.4	32	41¾-30	B2	Long established maker of high alloy, stainless and tool steels, for which substantial demand continues. Earnings lowered by heavy costs but 1949 dividends should equal 1948.
Colorado Fuel & Iron	5.04	4.07	1.25	1.05	7.3	3.4	17	22⅜-12¾	C+2	Well integrated maker of rails and wire products. Outlook favorable and satisfactory earnings indicated. Occasional extras may supplement regular dividend.
Continental Steel	3.24	2.59	1.50	1.00	10.0	4.6	15	19⅞-13⅞	C+2	Heavy demand for nails, wire products and metal roofing should stabilize 1949 sales. Firm prices beneficial. No change in dividend anticipated.
Crucible Steel	4.15 E	1.12	Nil	Nil	....	5.3	22	28¾-20	B—1	Leading maker of high speed, tool and stainless steel. $30 million expansion program has precluded dividend payments, but sharp earnings gains may warrant resumption.
Follansbee Steel	5.20	8.22	3.00	2.50	14.2	4.0	21	40½-20½	C2	Produces cold rolled carbon sheets and strips and various stamping specialties. Prospering under current conditions but former record spotty. No change in dividend probable.
Inland Steel X	7.88	6.10	3.00	2.50	7.9	4.8	38	47⅞-34⅜	B2	Second largest midwest steel concern. Strong demand and enlarged facilities enhance 1949 potentials. Earnings cover dividends by ample margin.
Interlake Iron	3.04	2.34	1.50	1.20	12.5	3.9	12	16⅜-11⅛	C+2	Largest producer of pig iron, likely to remain in strong demand. Stable earnings probable due to firm prices. Continuity of dividend seems certain.
Jones & Laughlin Steel	12.01	7.17	2.00	2.00	6.7	2.5	30	39⅞-29¼	B2	Fourth in size among steel producers. Earnings should favorably compare with 1948 but increased dividend liberality will probably await completion of $70 million expansion program.
Keystone Steel & Wire	3.03 a	3.48 a	1.00 a	3.05 a	8.3	4.0	12	16⅜-11⅝	B2	Important maker of wire, rods and specialties. Recently completed new rod mill should benefit 1949 operations. 25¢ quarterly dividend on new stock (after 3-1 split) comfortably earned.
National Steel X	16.35	12.03	5.00 b	4.00	5.8	5.6	86	114½-81¼	B2	Completion of substantial expansion program and sustained demand for sheets, strip and structural steel should hold earnings far above average. Dividend broadly covered and further liberality possible.
Republic Steel	7.61	5.17	2.25 b	2.00	9.3	3.2	24	33¾-22⅜	B2	Development of continuous casting methods should widen margins on well maintained high volume. Earnings warrant stable dividends.
Sharon Steel X	14.96	10.89	2.50	2.00	7.3	2.3	34	46⅜-30	C+2	1948 uptrend in volume and earnings should hold in current year, due to greatly expanded facilities. Chance for increased dividends will hinge on capital needs.
Sloss-Sheffield Steel & Iron	5.00 E	3.94	1.70	1.20	8.5	4.0	20	25⅛-18	C+2	Outlook bright for 1949, as evidenced by declaration of 50¢ quarterly dividend in advance throughout 1949. Earnings well warrant move.
Superior Steel	3.44	3.98	1.25	1.00	9.6	3.8	13	19⅞-12¾	C+2	Plant rearrangements brought moderate dip in earnings last year, but improvement looked for. 25¢ quarterly dividend secure and year-end extra possible.
U. S. Pipe & Foundry X	8.14	6.02	2.80	1.60	6.1	5.7	46	53¼-39½	B2	Dominant maker of cast iron pipe and important producer of pig iron. No let-up in demand expected, enhancing outlook for continued high level earnings. 75¢ quarterly dividends declared for all 1949, with 25¢ extra payable March.
U. S. Steel X	11.99	11.71	5.00	5.00	7.0	6.0	71	87⅝-67⅜	B2	With $800 million expansion program well advanced and steel demand strongly sustained, outlook is good. Record earnings provide cushion for possibly higher taxes. Dividends should continue $1.25 quarterly with occasional extras.
Wheeling Steel X	23.24	18.66	2.25	2.00	5.2	1.9	43	57⅞-37	B2	Increased production of light steels and fabricated items should benefit 1949 operations. Good cost controls likely to hold earnings close to record level, but capital needs may preclude further increased dividends. Quarterly rate advanced to $1 in January.
Woodward Iron	7.36	6.11	3.00	3.00 a	9.4	4.3	32	37¾-28	B2	Second largest producer of pig iron, with outlook benefited by continued record demand. Liberal year-end extra should supplement conservative quarterly rate.
Youngstown Sheet & Tube X	17.74	13.31	5.00	4.00	7.5	3.8	67	89⅜-65½	B2	High level demand for steel sheets and pipe should enable company to report favorable earnings in current year. Quarterly dividends are protected by wide coverage and occasional extras quite possible.

‡—Based on 1948 dividends.
†—Based on 1948 actual or estimated earnings.
E—Estimated.
a—Adjusted.
b—Plus stock.

The increasing influence of dollar shortages in foreign countries caused a steady downtrend last year of iron and steel exports from our shores, as well as machinery and automobiles using steel. In December, 1947, total shipments abroad of these items amounted to nearly half a billion dollars. Last November the monthly amount had fallen to about $280 million as a result of a progressive decline. This trend, though, will indubitably be reversed from now on, because of sharply increased allocations by ECA, though 1949 exports under ECA may shrink to 900,000 tons compared with 1.25 million tons in 1948. In this connection it is interesting to note that acute shortages of steel in the United States last year caused domestic buyers to import substantial quantities from Belgium, Luxembourg and France. Even now it is thought that as much as 50,000 tons per month are coming from Luxembourg alone, most of which is being converted into products that will be purchased by European countries. Because the steel supply at home has become more ample now and reshipments are a costly device, the domestic industry should speedily stop this leak in its normal markets.

More Normal Flow of Steel in Sight

No better evidence of an approach to normalcy in the steel industry is provided than by the recent sharp drop in steel scrap prices and the virtual elimination of grey market premiums for steel products of every kind. Whereas restricted scrap supplies last year pushed the price to around $45 per ton, the Iron Age composite scrap price has now declined to $37.25, the lowest level since the summer of 1947. Inferior grades have dropped even faster in price in all markets throughout the country, indicating that steel processors have at last accumulated adequate inventories despite increased production.

This very encouraging factor has been partly induced by sharply increased supplies of scrap originating in Europe, especially from Germany. Prior to last July, total shipments from this source in postwar amounted to a mere 4,000 tons. In the following seven months the figure soared to more than half a million tons and almost as much more has been definitely allocated for shipment to the United States. About 40% of these imports were generated by the Army, the rest representing commercial scrap. Aside from this improved supply, increased scrappage of automobiles, locomotives, freight cars and other durables has helped to restore a desirable balance with demand.

Grey Markets Disappearing

As for grey market premiums for semi-finished steel, manufacturers have now stepped up deliveries to a point where customers no longer are willing to pay fancy premiums to middlemen. "Conversion" deals have also been virtually abandoned, that is deals where ingots were purchased from one producer and sent to other mills for further processing, regardless of the higher expense entailed. In other words, steel customers though they may still be pressed for supplies have become sufficiently confident of reasonably prompt deliveries that they are willing to wait rather than to incur former high costs by around-the-corner purchasing methods.

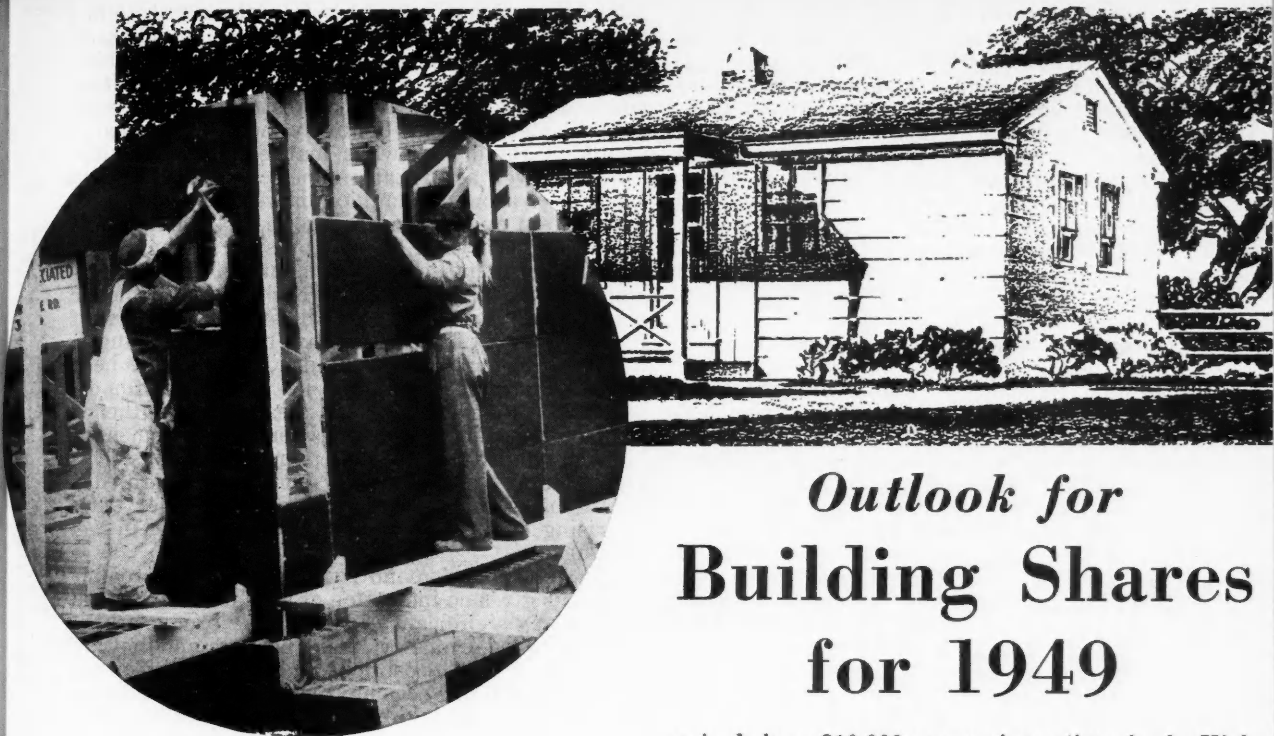
Continuance of voluntary allocations by the steel industry will be a factor of less importance than some people might assume. Of total exports of 900,000 tons to be approved by ECA, only about one third to a half will call for voluntary allocations, with steel plate accounting for about 25% of the total. Largest allocation on the domestic front will be about 250,000 tons monthly for production of freight cars, with prospects that military requirements may involve about another 102,000 tons monthly. Allotments in other directions will be relatively small, the grand total for all purposes coming to hardly more than 550,000 tons or only about 3.2% of entire output. This would compare with actual diversion of 1.26 million tons between April, 1948 and March 1, 1949. In a way, though, the percentage of total output for various steel products still on an allocation basis tends to indicate relative tightness of supply. Plates, for example, involve 10.69% of their total production under this program, structural shapes 7.56%, coated sheets and strips 8.76%, pipes 6.64%, while the percentage of other items is of insignificant proportions.

Considering the remarkable strides achieved by the steel industry in postwar to renovate, expand and modernize their facilities, complaints from Washington suggesting laggard performance and possible steps to bring the Government into the picture have been quite out of order. Outlays of about $2 billion by the industry since VJ-Day to increase production have been prodigious, and by the end of 1949 the total will be expanded by another $627 million dollars. It is doubtful if more steel could have been diverted from hard pressed customers to construct new mills without serious economic repercussions. Additionally, about seven tons of essential raw materials are required to produce a ton of pig iron, and to acquire and transport a larger supply would create insuperable difficulties, aside from assembly of competent personnel. Federal suggestions along these lines, accordingly, appear thoroughly impractical and unreasonable, and have generally been discounted as political propaganda.

FOB Mill Pricing Aids Profits

So far the shift of the steel industry to FOB mill pricing policies last July, in line with the Supreme Court ruling, has proven anything but an adverse factor. To the contrary, the move has probably increased net earnings by around $1 per ton, and few complaints have been heard from customers. When the steel supply becomes entirely balanced with demand, though, the situation may change unless the court decision is reversed. About 30,000 customers buy direct from mills and heavy freight rates will carry incisive weight in placing orders for steel. Where steel of proper quality can be bought with a short haul, favorable plant location of the steel manufacturer will be the determinant factor. Nevertheless, the question of freight absorption is subject to numerous adjustments in settling final prices, thus the problem may not become as acute as might be supposed. In any event, the matter will not be too important in appraising earnings potentials during the current year.

At present, the steel industry is headed for another extremely active and profitable year. Managements have expressed confidence that new production records will be made, barring work stoppages. In July, new wage contracts will come up for discussion and it is possible (*Please turn to page* 652)



Outlook for Building Shares for 1949

By H. F. TRAVIS

Competent observers of the building industry seem well agreed that high level activity will predominate in this field during 1949. Total construction involving $25.7 billion in 1948, however, may stand as a postwar peak for some time to come. But though overall figures in the current year may not equal the previous mark, conservative estimates anticipate a decline of not much more than 10%. Thus another very satisfactory year appears ahead for most divisions of this dynamic industry.

In support of this premise there is a good deal of weighty evidence. A prospective decline in industrial construction and private residential building should be largely compensated for by stepped up activities for public works programs and utilities. Already it seems certain that outlays for hospitals, schools, highways, bridges and other civic undertakings will expand by at least one billion dollars in the current year. Then the Government probably will spend large sums later in the year for conservation and defense projects when Congress provides the necessary funds.

To start the ball moving, the Atomic Energy Commission has recently contracted for $70 million new construction work at Oak Ridge, Tennessee. Too much reliance, however, cannot be placed upon potential benefits this year to be derived from the proposed Government Housing Program for its approval and implementation is bound to take time. In any event, not very much significance dollarwise can be allotted to this Federal venture in relation to total construction volume.

Despite the construction of about 2.5 million residential units since 1945, the influences of expanding population and depreciation has served to hold demand pretty much on a high level. In many large cities, it is true, a good many unsold new houses priced above $10,000 are moving rather slowly. High wages and materials costs have also caused a lag in building low priced homes compared with the scale enthusiastically undertaken a year ago. Many builders of multiple house projects have become discouraged and withdrawn from the field after experimenting with "prefabs" and other low priced units. Consumer resistance to enforced price markups of about 50% in these cases significantly dried up the market.

Increasing pressure for new living quarters, however, looks as if it would remain insistent, at least enough so to warrant some 875,000 new non-farm housing starts in 1949, or only 5% fewer than in 1948. Public dwelling starts may actually double in the current year compared with the previous period, reaching perhaps as many as 30,000 units. Schools, hospitals and other institutions are expected to involve expenditures of around $400 million, with highways, sewers and other public works accounting for perhaps $600 million more. All said, volume of the building industry this year may total more than $20 billion, sustaining sales of leading suppliers at a very satisfactory level. These estimates allow for a possible drop of 10% in industrial construction, due to completion of expansion programs, uncertainties over the economic outlook and high costs.

Heavy Construction Makes Good Start

Much encouragement is provided by construction commitments for the first five weeks of 1949 as compiled by Engineering-News Record, and embracing projects of only fairly good size. According to this survey, total contracts of this character aggregated more than three quarters of a billion dollars, a rise of 64% over the first six weeks of 1948. The gains were divided almost equally between private and public contracts, though the latter were slightly more impressive and represented the largest dollar totals in almost six years. Furthermore, this same source

points to new construction capital raised by private organizations, states and municipalities as amounting to $359 million in January. While this was lower than relative figures for November and December, it was approximately double the amount for January, 1948. It is especially significant in that actual construction of buildings rather than such projects as sewers and waterworks accounted for the major portion of the gains, and that public, industrial, commercial and unclassified contracts all shared in the advance. Figures for following months, on the other hand, must be awaited before assuming that the initial tempo will be maintained.

Lower Volume — Narrower Margins?

Granted that construction and maintenance expenditures do recede somewhat in 1949 from last year's record peaks, and considering that distributing pipelines have become more adequately filled, volume of many materials producers should decline. In this event margins in numerous instances may tend to narrow unless managements prove unusually efficient in handling costs controls. Any increase in tax rates later in the year, if made retroactive, would also result in somewhat lower net earnings. Dividends of almost all the leading units in the industry, on the other hand, have been held to a conservative basis relative to net and seem unlikely to be affected if earnings are not unduly depressed.

Experience of concerns in different branches in the industry may vary in this respect, and other factors will decide the policies of individual firms. With greatly enlarged facilities and a strong trade position, some concerns may achieve volume gains and improved earnings this year and feel warranted in displaying slightly increased dividend liberality as 1949 progresses.

Among several divisions in the building industry enjoying well marked prospects for sustained sales and earnings are the producers of cement. This material not only is used extensively in public works, but to a greater or lesser degree in practically all other building activities. Record demand last year was only partially matched by record production of 205 million barrels, and during 1949 chances are slim that supply will catch up. Should building activities unexpectedly subside at a rapid rate, cement manufacturers should be able to stabilize their volume by receipt of increased orders for road construction and other public works. The business is well integrated, with ample supplies of conveniently located raw materials (limestones and clays) and wage costs are low. Prices averaged better than $2 per barrel last year, only about a third above the prewar level but a record high at that. Large sales last year pushed earnings of the leading concerns up substantially and helped to reduce mill stocks of cement to very modest levels.

Outlook for Cement Manufacturers

The enforced shift in pricing policies of the cement industry to an FOB mill basis thus far has seemed not to be an adverse factor in the operations of the larger concerns. Indeed, under current conditions it may have been rather beneficial in some instances. Plants of the leading producers are located in areas adjacent to the most promising markets, and demand from these sources has been so ample that where more distant customers may have been lost due to freight differentials, it has been possible to gain at least an equal number of new ones locally. In other words, favorably situated concerns have merely been forced to exchange customers per se, and probably have gained at the expense of smaller competitors now obliged to lean heavily on restricted local trade.

Lone Star Cement Company, with well located plants in rapidly growing markets in the United States as well as in Latin America, and an annual capacity of around 27 million barrels, appears likely to maintain operating earnings in 1949 comparable to those of last year. Similar prospects enhance the outlook for Alpha Portland Cement and Lehigh Portland Cement, both strongly entrenched in the domestic markets they serve. While the business of all three of these prominent firms is sensitive to cyclical changes, their long term record for dividend stability has been fair. Cash accumulated from heavy charges for depreciation and depletion has steadily strengthened treasury positions and at times permitted payment of dividends in excess of earnings in lean periods. This factor improves chances for continued liberal distributions in the current year even if higher taxes or rising costs bring a moderate decline in net earnings.

The abnormal demand for wallboard and roofing materials gives no indication of subsiding in 1949, at least to any significant degree. These products have been improved in quality during postwar and they are well adapted to low-cost housing because of efficiency in application and economy, while nearly all industries utilize them on a broad scale. Additionally, the leading producers usually can count on maintenance requirements to originate about a third of total sales. Practically all specialists in this division experienced peak sales and net earnings last year and prospects are bright for another good year.

Makers of Gypsum Products

Relative concentration of gypsum production in the hands of a few large concerns has greatly benefitted their operations in postwar, as shown by all-time peak volume and earnings for the group in 1948. As a basic material for building plaster, laths, wall boards and retarding of cements, gypsum has made strides against competitive items. Its low cost and resistance to fire hazards, along with improved composition and design, have extended its popularity. Forward looking concerns in this field undertook some sizable expansion programs in postwar, most of which are now practically completed.

That of U. S. Gypsum, for example, involved $42 million, with $27 million spent by National Gypsum and $12 million by Celotex, though part of the latter went for expanded output of wallboard made from sugar cane. During 1949 it looks as if demand would amply justify this enlarged capacity with the likelihood that volume will stabilize at a high level. Since the facilities have become well modernized, this points to efficient operations and improved cost controls. Reference to the appended table will show a wide coverage of earnings over dividends for these three concerns last year, supporting expectations for at least continued stability, if not increased liberality now that capital needs have become less pressing.

In the roofing division conditions are favorable likewise. Manufacturers of roofing materials have broadly diversified their output to include asphalt and asbestos items of substantial variety. Such specialties as tiled flooring, paper board, pipe coverings and products for industrial and (*Please turn to page* 645)

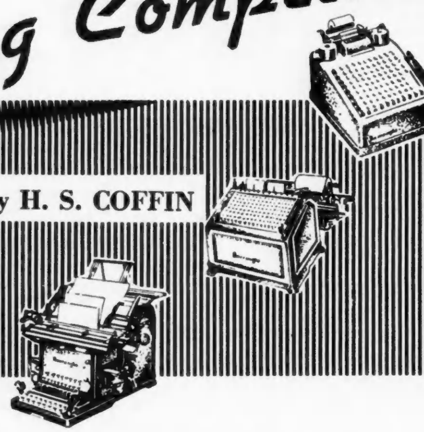
Position of Leading Building Materials Stocks

	Net Per Share 1948	Net Per Share 1947	Divs. Per Share 1948	Divs. Per Share 1947	Div. Yield‡	Price-Earnings Ratio†	Recent Price	Range 1948-49	Investment Rating	COMMENTS
Alpha Portland Cement	$3.75 E	$3.06	$2.00	$2.00	6.9%	7.8	$29	31½-25	C2	Continued heavy demand should enable company to sustain record sales and earnings with ample coverage over current dividends.
American Rad. & S. S.	2.75 E	1.90	1.50	1.00	11.5	4.7	13	16⅞-12½	C+2	Expanded facilities should serve to stabilize high level volume. Higher taxes may slightly reduce net but conservative dividend secure.
Bruce, E. L.	7.47	4.88 a	2.62½ a	.87½ a	14.6	2.4	18	32 -18¼	B3	Leading producer of hardwood floorings. Earnings in fiscal 1949 likely to shrink from former peak though no variation in dividend indicated.
Celotex X	7.21	6.59	1.75	1.12½	7.9	3.0	22	34⅜-21⅞	B2	Well maintained demand for wall board and gypsum products promises to keep sales at high level. 50 cents quarterly dividend amply earned.
Certain-teed Products	4.01	3.75	1.30	.60	10.8	3.0	12	20 -10¾	C3	Slight downtrend in earnings probable in 1949 but without endangering 25 cents quarterly dividend or prospects for occasional extra.
Crane Co.	6.50 E	5.18	3.00	2.60	10.3	4.5	29	39¾-28	B3	Leading plumbing supply manufacturer, along with pipes and heating equipment. Some recession in earnings probable but strong finances assure dividend stability and chances for year-end extra good.
Devoe & Raynolds "A"	4.41	5.62	2.60	1.60	13.0	4.5	20	28½-19¼	B2	Long established paint producer with important trade connections and retail outlets. Earnings decline last year likely to level off. 50 cents quarterly dividend should continue.
Flintkote X	5.86	6.27	3.00	1.50	12.0	4.3	25	42⅝-24⅝	B2	Higher taxes may reduce net but earnings should compare favorably with 1948. Quarterly dividend well protected.
Holland Furnace X	4.20 E	4.10	3.00	2.00	13.0	5.5	23	29¾-21⅛	B2	Leading maker of warm air heating equipment and other burners. 1949 outlook bright and liberal dividend policies expected to prevail.
Johns-Manville X	5.22	3.18	2.00	1.40 a	5.3	7.3	38	42¼-33¼	A2	Increased prices for asbestos products late last year should benefit margins. Completion of large scale expansion program likely to sustain heavy sales. 1949 dividends likely to be improved.
Lehigh Portland Cement X	5.50 E	3.78	2.00	1.50	5.1	7.1	39	40¼-30⅜	C+2	Well integrated producer with largely increased facilities. No let up in heavy demand apparent. Ample coverage of $2 annual dividend expected.
Lone Star Cement X	8.03	6.68	4.50	4.25	6.8	8.2	66	68⅞-57½	B2	Favorable plant locations at home and in South America tend to stabilize volume. 1949 prospects indicate continued high level earnings and liberal dividends.
Masonite	11.71	7.30	3.25	2.00	6.8	4.1	48	69¾-47½	B2	Largest producer of hardboards. Trade position strong. Earnings likely to continue substantial, assuring dividend continuity. Year-end extra probable.
National Gypsum	3.85 E	2.89	1.00	.75	7.1	3.6	14	20⅞-13⅜	C+2	Second largest unit in special field. Volume likely to hold at encouraging height in 1949, aided by completion of expansion program. Conservative dividend safe and extra quite probable.
Otis Elevator X	5.50 E	3.41	2.00	1.35	6.7	5.5	30	37½-27	B2	Dominant manufacturer of elevators and escalators. Sharply increased earnings raised January dividend to $1 per share but no regular rate.
Penn.-Dixie Cement	4.86	2.92	1.50	1.25	8.3	3.7	18	21⅜-15¼	C2	Acquisitions have expanded capacity and improved 1949 volume potentials. Earnings outlook for 1949 bright. Moderate dividend should be well covered.
Pittsburgh Plate Glass	3.25 E	3.11	1.75	1.70	5.8	9.2	30	39½-30	A2	Combined heavy demand for plate and window glass plus paint should stabilize 1949 earnings at satisfactory level. Year end extra likely to supplement regular quarterly dividends.
Pratt & Lambert	5.50 E	5.26	3.00	2.95	8.6	6.4	35	44½-34	B3	Possible decline of about 10% in operating earnings may occur and heavier taxes would further reduce net, but ample working capital should warrant well sustained dividends.
Ruberoid X	11.80	10.88	3.25 b	2.75	6.6	4.2	50	72 -51	B3	1949 earnings may not equal last year's but still should provide ample coverage of comparable dividends. Outstanding long term record for stability enhances investment factors.
U. S. Gypsum X	15.04	10.00	6.00	4.00	6.1	6.5	98	113¾-92½	A2	Largest manufacturer in field. Completion of sizeable expansion program should stabilize if not expand sales and earnings in current year. Occasional extras should continue to be paid.
Walworth	1.95	1.71	.85	.75	10.6	4.1	8	13½- 8	B3	Second largest producer of valves and fittings. Heavy demand from oil and chemical industries should produce satisfactory sales, though net earnings may decline somewhat. Dividend outlook not wholly clear.
Yale & Towne	4.10 E	5.85	1.00 b	1.60	4.5	5.4	22	34¾-21	B3	Rising costs tending to narrow margins somewhat, but earnings may level off in 1949 to amply cover conservative quarterly dividends. Strong trade position a favorable factor.

‡—Based on 1948 dividends.
†—Based on 1948 actual or estimated earnings.
a—Adjusted.
b—Plus stock.
E—Estimated.

Office Equipments Battling Competition

By H. S. COFFIN



Manufacturers of office equipment, like numerous other segments of industry, face a levelling off of sales and earnings in 1949. This, however, does not imply that the trend should prove unhealthy to better situated concerns in the group. Although supplies of most business machines have become abundant and competition is now intense, strong evidence persists that overall demand will remain at levels far above prewar. In other words, the current near-evaporation of former heavy order backlogs merely signals the approach of a new sales environment in which promotional activities must assume heightened significance. Measured by prewar standards, both volume and earnings should continue satisfactory, while dividends in most cases are likely to prove stable.

During a period of intense business activity such as the nation has experienced since Pearl Harbor, sheer necessity to expedite accounting, check handling, record compilations and every form of paper work pushed demand for mechanized equipment to record levels. Now a new period has begun, one when cost savings rather than speed and convenience have become a transcendent factor in every enterprise. Fortified by ample resources and stimulated by awareness that office costs can be held down by the use of modern equipment, business managements in every direction are turning willing ears to a swarm of well trained salesmen.

The main difference from former conditions is the return of a buyer's market where spot deliveries of typewriters, adding machines, moderate sized calculators and numerous other light equipment are assured. Additionally, customers have become quite selective and price-conscious in placing orders. Practically all of the manufacturers, though, are offering items of improved efficiency and design, thus enhancing potentials for both new orders and replacements, but selling and promotional costs are likely to increase.

While the scramble to satisfy deferred demand has now practically vanished, except where custom-built devices or intricate recorders and calculators are involved, substantial orders should flow in for equipment commensurate with the expected slight reduction in general business activity. Servicing of the vast amount of office machines sold since the war and estimated at around $5 billion together with increased demand for replacement parts with relatively wide profit margins should help to sustain revenues. Economic uncertainties like those now presenting themselves may curb demand for new equipment to some extent for a while, but the need to cut costs could prove an effective offset.

One factor that may tend to bolster office equipment sales is the broadly indicated trend towards hand to mouth purchasing at every level. This process of ordering in small quantities expands the number of commercial transactions, greatly increasing paper work in offices and banks. Dismissal of employees, lay-offs and rehirings also increase recording and bookkeeping problems, not to mention the influence of stepped-up defense orders that always involve elaborate form filling, and may work in the same direction.

1949 Prospects Vary

On balance, there seem few indications that volume of the leading office equipment will experience a significant downtrend during 1949, though results of individual concerns will vary in this respect to some extent. In like manner, problems induced by lower sales, possibly rising costs, and expanded outlays for selling will adversely affect earnings of perhaps most concerns, but the present wide coverage of dividends should assure generally stable dividends. Here again, managerial efficiency of varying quality will color the accomplishments of individual companies in the year ahead.

Prospects that foreign demand for office equipments may improve are rather good. This is important as many of the leading producers ordinarily count on exports for from 20% to 40% of total volume. As a matter of fact, latent demand for up-to-date business machines from foreign areas has continued basically strong, but growing scarcity of American dollars has tended to defer order placements and shipments. Actual deliveries to foreign customers declined about 5% in the first half of 1948 and the drop probably was accentuated in the last half. Evidence is accumulating, on the other

hand, that the European Recovery Program in near term months will allot larger funds to foreign nations for the purchase of much needed office equipment, permitting placement of some very sizable orders. If so, this may offset in considerable degree any likely reduction of domestic sales.

Price Aspects

Now that overall demand for office machines has found supply in practically full balance, leading manufacturers nearly all along the line are taking steps to protect their profit margins on reduced sales. Postwar price lifts by this industry have been rather moderate compared with those of other durable lines. Prices as a rule have been advanced only by about 50% above prewar. In view of increased competition and widespread deflationary influences, it is unlikely that any further rise in prices will be possible to compensate for lower sales. Faced with this barrier last year, margins of some large concerns were pinched by rising costs for both materials and wages, notably in the case of Remington Rand. Another reason why no price boosts will be practical is the sharp competition now offered by dealers in second hand and rebuilt office machinery. Prices on these usable but not new items have tumbled fast to a level sometimes 50% below their postwar peak as supplies have become burdensome.

It seems clear that the first move by the industry to solve current problems has been to reduce production in some directions. Work weeks were shortened here and there and limited layoffs of late have been quite general. Remington Rand has even gone so far as to close its portable typewriter plant in Syracuse, concentrating production of this item in other plants. In appraising the significance of lower production, though, it should be realized that since VJ-Day, many concerns have substantially enlarged their facilities, employed far more workers than formerly and introduced many new and improved items. While the rush was on to meet a seemingly unsatiable demand, full use of enlarged factory space was possible and manufacturers of adding and calculating machines, for example, were keeping 44,700 workers busy compared with 19,700 in 1939.

With volume certain to level off on a lower plateau, it seems inevitable that employment in this field will slacken, but chances are strong that it will remain far higher than prewar. We mention this because the supply of skilled labor has been tight until recently. Now that it is easing, cost controls in the modernized plants can function more efficiently and requests for fourth round wage boosts should become more rare. In other words, sales could recede moderately in 1949 without too seriously squeezing profit margins of the more efficient manufacturers, though possible higher taxes could intensify any decline in net in that score.

Some Still Have Large Backlog Orders

Fortunately for most concerns in the office equipment industry, the process of readjustment is rather gradual, for backlog orders in certain divisions are still substantial though being steadily reduced in most instances. Incoming orders of National Cash Register, for example, last December were 11% higher than in the same (*Please turn to page* 645)

Position of Leading Office Equipment Companies

	Net Per Share 1948	Net Per Share 1947	Divs. Per Share 1948	Divs. Per Share 1947	Div. Yield‡	Price-Earnings Ratio†	Recent Price	Range 1948-49	Investment Rating	COMMENTS
Addressograph-Multi. X	$6.88	$5.99	$2.75	$2.35	9.5%	4.2	$29	41½-27⅛	B3	Earnings for fiscal year to end July 31, 1949, may be moderately lower than a year earlier, but dividend stability should not be threatened.
Burroughs Adding Mach. X	2.52	1.36	.75	.75	5.3	5.5	14	17¾-12½	B3	Lift of quarterly dividend rate to 20 cents per share in January attests to managerial confidence in outlook for current year.
Felt & Tarrant Mfg.	4.00 E	2.64	3.00	2.00	15.8	4.7	19	24½-18½	B—2	Producer of "Comptometer" adding-calculating machines enjoying large foreign and domestic sales. Regular 35 cents quarterly dividend rate well secure, bolstered by occasional extras.
International Busi. Mach.	11.50 E	9.39 a	4.00	3.43 a	2.7	13.0	150	162 -125½	A2	Leading producer of electrically operated office devices and card systems. Earning power in coming months should amply cover conservative dividends.
National Cash Register	8.40 E	6.95	2.50 b	2.25	8.1	3.7	31	48 -30⅝	B3	Easily dominant unit in its special field. Some downtrend in earnings from record levels probable but liberal dividend treatment expected.
Remington Rand	2.75 E	3.26 a	1.00 b	.57 a	11.1	3.3	9	15¼- 8¾	B2	High wage costs and labor troubles adverse factors at a time of shrinking typewriter demand. Conservative dividend policies may rule.
Royal Typewriter	4.99	3.49	2.10	1.55	11.6	3.6	18	27⅜-17	B3	Strong trade position likely to stabilize volume. Net may recede somewhat but advanced dividend rate of 50 cents quarterly will probably hold.
Smith, L. C. & Corona	4.77	5.57	2.00	2.00	13.3	3.1	15	26 -15	B3	Levelling off of typewriter sales and increased competition may extend last year's moderate earnings downtrend but dividend should not change.
Underwood X	8.19	8.31	4.00	4.00	9.5	5.2	42	59¼-39	A3	Lower sales and somewhat reduced earnings expected but 75 cents quarterly rate secure and a year-end extra possible if all goes well.

‡—Based on 1948 dividends.
†—Based on 1948 actual or estimated earnings.
E—Estimated.
a—Adjusted.
b—Plus stock.

Financial Survey of Specialty and Unclassified Stocks

	Net Per Share 1948	Net Per Share 1947	Divs. Per Share 1948	Divs. Per Share 1947	Div. Yield†	Price-Earnings Ratio‡	Recent Price	Range 1948-49	Invest-ment Rating	COMMENTS
Abbott Laboratories W	$5.50 E	$5.46	$2.40	$3.25	3.2%	13.4	$74	79¾-69¾	A1	Earnings potential increased by development of important new products. New sales and profits peaks possible. Increased quarterly dividend of 65¢ is supplemented by liberal extras.
American Bank Note	3.15 E	2.52	2.20	2.00	10.4	6.7	21	29⅞-18¾	B2	Profits should be well maintained for the first part of this year with longer-term prospects moderately favorable. 40¢ quarterly dividend is supplemented by a year-end extra.
American Can	7.50 E	6.65	4.00	3.00	4.5	11.8	88	92¾-76¼	A2	With demand for containers continuing strong, slightly higher sales are in sight. Since plant expansion is largely completed, dividends may become more liberal.
American Chain & Cable X	4.75 E	3.65	2.00	1.40	9.5	4.4	21	27 -18¾	C+2	Demand for company's main lines holding up well, with a wide variety of industries supplied. 35¢ quarterly dividend receives occasional extras.
American Chicle W	3.92	4.00 a	2.50	2.33 a	6.1	10.4	41	51 -38	A+1	Strongly situated company benefiting from lower cost of ingredients. Profit margins widening. Regular 50¢ quarterly dividend is supplemented by liberal extras.
American Home Products W	2.36	1.72	1.45	1.20	5.6	11.0	26	26¾-20⅞	A1	With steady sales from expanded operations, longer-term prospects are promising. Company pays 10¢ monthly plus a year-end extra.
American Ice	.98	1.02	.60	.50	10.0	7.5	6	8¼- 5¼	C3	Near-term and longer-term outlook unimpressive. Further payments this year to 60¢ already declared are unlikely.
American News	5.33	4.57	2.25	2.32	6.8	6.2*	33	35 -29	B2	Higher prices improve sales prospects and earnings should be well maintained. The bi-monthly 25¢ dividend is supplemented by a liberal year-end extra.
American Safety Razor	.60 E	.80	.75	1.25	10.7	11.7	7	12⅛- 6½	B2	Newly-added items broadening earnings base, with indicated improvement in profit margins. 12½¢ quarterly dividend should continue.
American Ship Building	1.47	2.77	3.00	3.00	7.7	26.5	39	46 -38	C+1	Recent new contracts indicate a large gain in earnings for the 1948-1949 fiscal year. With finances strong, the $3 dividend should be maintained.
Archer-Daniels-Midland	7.55	9.59	2.00	1.25	6.9	3.8	29	34¾-24	B3	Price weakness in vegetable oils may narrow margins but volume should be well maintained. Dividend recently raised from 25¢ to 50¢ quarterly.
Bristol Myers	2.94	2.66	1.60	1.90	5.2	10.5	31	37¾-25¾	A1	New products adding to volume potential; profit margins on established lines improving. 40¢ quarterly dividend expected to be maintained.
Bush Terminal Co.	1.30 E	1.22	5% Stock	.35	......	6.1	8	10½- 7⅛	C2	Operations holding up well but need to conserve cash indicates continuation of stock dividends in lieu of cash.
Canada Dry	1.31	1.31	.60	.60	5.0	9.1	12	15⅝- 9	B2	Expanded capacity helping to maintain profits, with longer-term prospects promising. 15¢ quarterly dividend may be raised or supplemented with an extra.
Catalin Corp. of America	.40 E	.55	.15	.50	3.7	10.0	4	8½- 4	C2	Some improvement in earnings is likely but competition is limiting margins. Dividend payments are irregular.
C.I.T. Financial X	4.57	2.03	2.00	2.00	4.6	9.6	44	48½-36½	B1	Further gradual improvement in profitable automobile financing indicated for next several years. Dividend rate recently raised from 50¢ to 75¢ quarterly.
Colt's Mfg.	1.00 E	.76	Nil	1.75	......	39.0	39	40⅞-29½	C1	Company's position improving due to defense orders; demand for its peacetime products fairly large but competition increasing. Dividends may be resumed this year.
Commercial Credit X	8.56	4.40	3.20	2.00	6.6	5.6	48	53⅜-36⅜	B1	Recently established record sales and earnings may show further improvement. Dividend recently raised to 90¢ quarterly which is amply covered.

†—Based on 1948 dividends.
‡—Based on 1948 actual or estimated earnings.
E—Estimated.

a—Adjusted.
b—Plus stock.

Financial Survey of Specialty and Unclassified Stocks (Continued)

	Net Per Share 1948	Net Per Share 1947	Divs. Per Share 1948	Divs. Per Share 1947	Div. Yield†	Price-Earnings Ratio‡	Recent Price	Range 1948-49	Investment Rating	COMMENTS
Diamond Match W	3.75 E	2.63	2.00	2.00	5.3	10.2	38	46 -35⅞	A2	Well entrenched and widely diversified operations will further extend company's stable record. 37½¢ quarterly dividend may be raised or supplemented by an extra.
Dresser Industries	7.15	3.85	1.50	Nil	7.2	2.9	21	31⅛-18½	C+2	Company enjoys favorable long-term growth possibilities because of secular growth of oil and natural gas industries which it supplies. Recently increased 50¢ quarterly dividend rate should continue.
Froedtert Grain & Malt	1.73	1.41	.75	.65	6.3	6.9	12	12½-10	B—2	With new facilities in operation, overall margins may show further improvement. Quarterly dividend of 17½¢ is supplemented by an occasional extra.
Gar Wood Industries	1.89	def2.78	Nil	Nil	......	3.2	6	9¾- 5⅜	C3	Lower operations indicated by declining demand for most lines. No dividend on common until preferred arrears are cleared up.
Gillette Safety Razor	7.00 E	5.11	3.00	2.37	10.0	4.3	30	39¼-27⅞	B2	Assisted by the Toni branch, earnings likely to continue large over coming months. Dividends this year should equal or better the $3 paid last year.
Greyhound	1.70 E	1.82	1.00	.83 a	9.1	6.5	11	13¼-10	B2	Low rates and improved operations should maintain present good earnings. 25¢ quarterly dividend should be continued.
Lambert Co.	1.75 E	1.52	1.50	2.50	7.9	10.8	19	24 -17	B2	Well maintained sales and lower costs of raw materials indicate favorable earnings in months to come but large capital needs may keep dividends on a conservative basis.
Life Savers W	3.75 E	3.84	2.50	2.80	7.1	9.3	35	38½-31½	A2	Company's excellent record of steady growth should be further extended with sales well maintained. 40¢ quarterly dividend is supplemented by an occasional good-sized extra.
Nopco Chemical	2.26	2.90	1.60	1.80	6.1	11.5	26	36⅛-23	B2	Current sales volume should be sustained during early part of this year. 40¢ quarterly dividend expected to continue.
Rexall Drug	.60 E	.51	Nil	.37	......	8.3	5	8 - 4¾	C+1	Company's expansion program should increase earnings potential and operating revenues are expected to increase this year. However, resumption of dividends uncertain.
Savage Arms	2.58	1.59	1.75	1.00	15.9	4.3	11	15½- 8⅜	C3	Possible defense orders may halt declining profit trend, under way since first quarter of 1948. Dividend disbursements are generally liberal.
Simmons X	7.10	7.04	2.50	2.50	10.0	3.5	25	36 -24¼	B2	Relatively large profits indicated for the first part of this year. Dividends this year may surpass the $2.50 paid in 1948.
Sperry	3.75 E	2.79	2.00	1.50	7.7	6.9	26	30⅞-20¾	B2	Growth prospects of basic items further enhanced by entrance into farm machinery and other lines. Dependence on Government business steadily decreasing. $1 semi-annual dividend should continue.
Sterling Drug W	3.35 E	3.09	2.25	2.00	5.9	11.4	38	39¼-32½	A1	Expanded operations in new fields enhance growth prospects to further extend company's excellent record. Dividend is 50¢ quarterly plus occasional extras.
U. S. Lines	2.47	7.13	2.50	2.12 b	19.2	5.3	13	21¼-11½	C3	Reduced exports and keener competition cloud the longer-term outlook. However, the 50¢ quarterly dividend is expected to be continued for balance of year.
Vick Chemical W	2.66	3.06	1.20	1.50	5.7	7.9	21	29½-19½	B2	Company's dominant position in cold remedy field and expansion in ethical drugs and vitamins point to well maintained earnings. Conservative 30¢ quarerly dividend amply covered.
Walgreen	3.03	3.29	1.85	1.85	6.6	9.2	28	35⅞-27½	B2	Improved margins resulting from declining food costs together with addition of new large units should further extend company's favorable earnings record. 40¢ quarterly dividend expected to continue.
Wrigley W	6.00 E	4.31	4.00	3.00	5.9	11.3	68	72 -60½	A1	Heavy demand for chewing gum indicates high level of operations for months to come. Profit margins improving. Occasional extras supplement regular 25¢ quarterly dividend.

†—Based on 1948 dividends.
‡—Based on 1948 actual or estimated earnings.
E—Estimated.
a—Adjusted.
b—Plus stock.

FOR

PROFIT

AND

INCOME

Groups

On recent softness in the general market, the groups reflecting relatively good support were utilities (both operating and holding company stocks), aircraft manufacturing, air transport, motion pictures, beer stocks, cement stocks, metal containers, drugs, finance companies, dairy products, gold mining, food chains, cotton goods, tobacco products, casualty insurance stocks, fire insurance stocks and bank stocks. To this it should be added that there has been only a slight recession in the markets for high-grade bonds and high-grade preferred stocks, following a substantial rise. On the whole, securities of investment and semi-investment grade continue to perform better than speculative issues.

Two-Way

This is going to be a two-way year for dividends — some up, some down. In fact, it already is. In recent days there has been favorable dividends news on Black & Decker, Douglas Aircraft, Brooklyn Union Gas, Indianapolis Power & Light, Hercules Power and United Fruit. There has been unfavorable dividend news over the same short period on Calumet & Hecla, Midvale Company, Crowell-Collier Publishing, Bausch & Lomb, Federal Motor Truck, Houdaille-Hershey and Newport Industries.

Holding Companies

We have noted before that the outlook for the electric power industry is favorable since gross revenue is likely to exceed that of 1948 even if there is a moderate recession; while, on the other hand, some operating costs will be down. This prospect is favorable also for utility holding-company stocks, which take their cue partly from the performance of operating - company stocks (which is now much better than that of the general market) and partly from the performance of the general list. Where completion of adjustments under the Holding-Company Act is distant, as in the case of Electric Bond & Share for example, general market trends probably will outweigh other considerations. Where consummation of integration-dissolution plans appears to be only a year or so away, holding-company stocks should act better than either the general list or operating utilities; and should gradually draw nearer to estimated liquidating values. Two such situations are American Power & Light common, now around 7¾; and Electric Power & Light, now around 22. Estimated liquidating value of the former is around \$12-\$13 a share; of the latter, close to \$29 a share. They will, of course, sell at discounts until their plans are approved by the SEC and then by the Court. Even if both were 100% certain, but consummation a year or so away, the stocks would still sell at discounts, because, while unlikely, it is possible for the general utility situation to turn less favorable within a year.

Mathieson

Mathieson Chemical has had a

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
American Tobacco	Year Dec. 31	$7.58	$5.70
Barnsdall Oil	Year Dec. 31	6.06	4.10
Bethlehem Steel	Year Dec. 31	9.46	4.98
Burroughs Adding Machine	Year Dec. 31	2.52	1.26
C.I.T. Financial	Year Dec. 31	4.57	2.03
Certain-teed Products	Year Dec. 31	4.01	3.75
Commercial Credit	Year Dec. 31	8.56	4.40
Fairbanks Morse	Year Dec. 31	9.59	7.05
United Fruit	Year Dec. 31	6.81	6.17
Westinghouse Electric	Year Dec. 31	3.88	3.58

1948-1949 price range of 45-27¼ and at this writing is selling at 40¼. As the figures bring out, this stock has so far sold off only modestly in general market reactions. The reason is not hard to find. Formerly a maker chiefly of alkali, the company over the last several years has gone in for rather aggressive diversification and expansion. It has paid off handsomely. Compared with as late a year as 1947, sales last year were up about 30%, profits about 65%. The latter amounted to $5.61 a share. Prior to the war, the best year was 1929, with net of $3.31 a share; and the best showing of the 1937-1940 period was only $1.81 a share. The reasons for the recent improvement are more internal than general, and this writer sees no chance that Mathieson will revert to its former relatively static position. In fact, the probability is that both sales and earnings will set new peaks again this year. Despite further expansion needs, the $2 dividend rate appears subject to increase. As a chemical with growth potentials, the stock is conservatively priced. It is likely to continue to hold better than the market on sell-offs; and there would seem to be a substantial, although not spectacular, potential for longer-term appreciation.

Pay Points

Well-informed sources figure that the break-even point of U.S. Steel rose to around 80% of capacity early in the postwar inflation of costs, but has now been lowered to about 50% of capacity. The price of steel is the major factor in this adjustment. For a time it lagged behind the rise in costs, especially of wages. It has now been brought into more or less normal relationship with costs. The same is true in many industries. Probably raised break-even points will not be as big a headache under recessionary conditions as many investors have feared. In the first place, no more than a modest deflation of prices — other than farm and food items — is likely, on an average. In the second place, the extraordinarily heavy outlays for new plant and equipment over the last several years must make for more efficient production, which tends to lower pay-points. In the third place, aside from the effects of mechanization, labor efficiency is gradually increasing; and will increase further as more normal employment conditions develop. Like some industries, labor formerly had a sellers' market, but no longer does. Regardless of break - even points, however, profits will always decline much more than production, given a downtrend in the latter. For example, there were no major distortions in break-even points in 1937; but from that year to 1938 total corporate profits fell about 51% on a shrinkage of only about 6% in the gross national product and of about 21% in the Federal Reserve Board index of industrial production.

Rails

The Dow Rail Average has become the problem-child of the market from the point of view of those who attach general barometric significance to its performance. This includes all addicts of the "Dow Theory." The thinking of many others is also more or less influenced, partly by way of allowing for what "Dow Theory" traders may do. The Rail Average has been acting worse than the Industrials for some time. The latter average recently broke its November post-election low by a small fraction (firming up promptly thereafter), but holds a fairly comfortable distance above its March, 1948, low and even more comfortably above its 1947 low. The rail average recently sold down to 46.34, which broke the early 1948 low of 48.13 but was materially short of the 1947 low of 41.16. As long as the latter is intact, even "Dow Theory" people will not worry unduly — and at this writing the threat is reduced by the best rail rally in some days. The action of rail stocks heretofore has been on the inferior side mainly because, with few exceptions, they are highly speculative. It is fairly well in line with that of our index of 100 low-price stocks, which in the February sell-off also broke all previous support levels since May, 1947.

Pay-Off

It is understood that sales of of "Toni" home permanent-wave kits accounted for around a third of the 1948 profits of Gillette Safety Razor, the total being not far from $7 a share. "Toni" was first in its field. Gillette bought this business in January, 1948, for a cash payment of $11.5 million, plus a contract to pay about $8 million more out of future "Toni" earnings. It was indubitably a fine deal for the inventor. How well Gillette will fare in the long run remains to be seen. By the end of 1948 it had in one year made a profit on "Toni" amounting to not far from 40% of the total cash outlay in acquiring it. The chances are that Gillette will come out all right, but without a bonanza. As was to have been expected, the success of "Toni" has quickly brought into the market a number of competing permanent-wave preparations for home use. Owners of beauty parlors view the whole thing with no enthusiasm at all. This column's attitude is one of academic interest and investment indifference.

Sutherland

Sutherland Paper does a specialized manufacturing business in paperboard products such as folding cartons, pails, plates, cups, etc. Growth record has been excellent and in off years the earnings have declined much less

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DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
American Ice	Year Dec. 31	$ .98	$1.02
Beck (A.S.) Shoe	Year Dec. 31	1.25	3.40
Buffalo Forge	Year Nov. 30	6.57	8.09
Butler Bros.	Year Dec. 31	.43	.72
Greenfield Tap & Die	Year Dec. 31	2.96	3.32
Homestake Mining	Year Dec. 31	1.22	1.29
Mead Johnson	Year Dec. 31	1.04	1.61
Mueller Brass	Year Nov. 30	3.79	5.56
Underwood Corp.	Year Dec. 31	8.19	8.31
United Carbon	Year Dec. 31	3.91	3.97

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Bigelow Sanford Carpet Company, Inc.

"Please advise on sales and earnings of Bigelow Sanford Carpet Company, Inc." R. I., Cincinnati, Ohio

Record production, sales and earnings were reached by Bigelow Sanford Carpet Company, Inc., in 1948. Net income for the year ended December 31, 1948 amounted to $5,196,584. These earnings, after preferred dividends, were $8.11 per share on the 621,218 outstanding shares of common stock as compared with earnings of $3,846,729, or $5.97 per share for the year 1947 on 618,218 shares of common stock, after giving effect to the two-for-one split of common stock in April 1948. (In each case, the reported earnings are before provision out of surplus of $400,000 for contingency reserve.) Net income for the fourth quarter of 1948 was $1,492,288, equivalent to $2.34 per common share. Net sales for the fourth quarter rose to $23,030,722 bringing the yearly total to $85,205,160. This is an increase of 35% over the sales of $62,872,093 for the year 1947.

Company profits amounted to 6.1% of sales, which was the same rate as in 1947. Company profits are on the basis of the cost of replacement of raw materials used during the year and do not include inventory profits. The market value of the materials on hand in inventories at December 31, 1948 was approximately $10,000,000 greater than the $21,000,000 figure carried on the balance sheet at that date. It should not be inferred that this $10,000,000 will ever be reflected in profits at some later date. It does, however, represent a cushion in that amount against having to incur losses at some later date by reducing inventory values when the market for raw materials declines. This safeguard against decline in raw material prices has been accumulated over the past ten years as a result of the last-in-first-out method of valuing inventories. Dividends in 1948 totalled $2.70 per share.

National Distillers

"As I am a subscriber of long standing to your Magazine, please give me a report on National Distillers." G. E., Mexico City, Mexico

National Distillers Products Corporation reported net profit of $26,867,248 for the year ended December 31, 1948. This was equal to $3.37 per share on the $7,977,771 shares of common stock outstanding and compared with net profit in 1947 of $36,443,638 or $4.57 per share. Net sales for the year were $351,569,291 compared with $395,375,828 in the previous year.

Sales during 1948 experienced the low point in inventories of its own matured whiskeys and due to this, sales of its leading bonded whiskeys were restricted to a smaller volume than in each of the two preceding years. In 1949 the company will have available for sale a somewhat larger supply of matured whiskeys.

For the first time in over six years, the company is approaching a satisfactory inventory position which will enable it presently to manufacture whiskey only in such quantities as may be needed to replace whiskey withdrawn for sale and to maintain balanced inventories. The company's inventories on December 31, 1948 totalled $116,031,381. The company's projected industrial chemical plant at Ashtabula, Ohio, is expected to be in operation by the middle of 1950. Metallic sodium, which will be the principal product, is in short supply and a good market is believed to exist for the output. The acquisition of a large modern whiskey distillery at Peoria, Illinois, previously operated under lease, was reported. Additional facilities for the storage of grain neutral spirits have been constructed.

The company's balance sheet showed total assets of $214,562,028 compared with $209,553,100 in 1947. Current assets, including inventories, were $169,626,989 compared with current liabilities of $32,607,043, a ratio of 5.2 to 1. Dividends amounting to $2.00 per share were declared during 1948, the same rate as was paid in 1947. After payment of these dividends the company added $10,498,483 to its earned surplus raising that account to a high mark of $97,386,500. On December 31, 1948, the company had 36,258 stockholders, an increase of 4369 during the year.

Kroger Company

"Please furnish information as to earnings, dividends and number of stores operated by Kroger Company." E. G., Glendale, California

Kroger Company is the third largest grocery chain in the country. Sales for 1948 totalled $825,688,323 and net income amounted to $9,311,120 after reserves and taxes. The net profit was equiva-

lent to approximately one and one-tenth cents per dollar of sales. Earnings were $5.07 per share after reserves and taxes as compared with $5.23 per share in 1947. $2,500,000 has been deducted from 1948 income as a provision for possible inventory losses resulting from falling prices and for other contingencies inherent in the present economic situations. Provision for Federal taxes totalled $7,929,600.

Dividends totalling $3.00 per share were paid during 1948 and the same sum was paid in 1947.

Sales for the year established a new record, exceeding 1947 sales by $71,386,238 or 9½%. Kroger's 1948 business year included 53 weeks instead of the customary 52 because an extra week is included every sixth year to correct the company's calendar of 13 four-week periods.

While increased sales during 1948 produced more gross profit dollars, net income was reduced because of a $13,000,000 increase in operating expense principally due to higher wages and to an increase of $800,000 in store leasehold improvement expenditures. In addition, profit margins of the company's manufacturing division were lower. Merchandise inventories of the company at the end of the year totalled $63,976,574, a drop of 1.2% below the 1947 year-end total of $64,710,122. Retail inventories represented 23 days supply as compared with 26 days supply at the end of 1947. Company plans to keep inventories on a rapid turnover basis during 1949. The company opened 147 new or relocated stores in 1948. Kroger stores in operation in 19 states at the end of 1948 totalled 2349, a decrease of 167 from 1947.

Seasonal increases in inventories during the Fall months necessitated bank loans which reached a peak of $9,200,000 on December 1st. These loans were reduced to $4,200,000 by the end of the year and have since been reduced to $3,000,000. Current assets, including $19,745,290 in cash, amounted to $89,934,782 while current liabilities were $39,639,006. These compared with current assets of $92,102,277, including $20.611,352 in cash, and current liabilities of $41.667,767 a year earlier. Net working capital in 1948 was $50.295,766 compared with $50,434,510 in 1947.

Union Bag & Paper Corporation

"I would appreciate data as to financial position, earnings and outlook of Union Bag & Paper Corporation."
C. H., Detroit, Michigan

Union Bag & Paper Corporation reported new highs in 1948 in sales volume and earnings. Increases during the year were also noted in working capital, net worth and book value per share.

Net sales for the year ended December 31, 1948, totalled $76,529,753 compared with net sales of $63,511,527 in the previous twelve months, an increase of 20% and an all-time high in the company's history.

Net earnings for the year 1948 amounted to $13,607,790, equal to $9.17 per share on 1,483,298 outstanding shares of capital stock. These earnings show an increase of 16% over net profit of $11,756,608, or $7.92 per share on the same number of outstanding shares, for the preceding year.

Company's satisfactory earnings can be attributed in large part to plant and equipment expenditures made in recent years. Union Bag & Paper expects to sell somewhat greater tonnage in 1949—but at prices lower than in the year just past. Increasingly competitive markets throughout the year are anticipated.

Net working capital of the company on December 31st last amounted to $15,345,616 compared with $14,744,380 at the close of 1947. The ratio of current assets to current liabilities was 4.7 to 1 at the year-end, unchanged from a year earlier. Long-term debt was reduced to $3,244,250 from $3,595,953 in 1947.

Net worth on December 31, 1948, was $41,990,604, an increase of 22% over net worth of $34,315,008 at the close of 1947.

Book value per share was $28.30 and $23.13 at the end of the respective periods. Dividends including extra, totalled $4.00 per share in 1948.

Lehigh Coal & Navigation Company

"As a subscriber to your valued Magazine, I would like information on Lehigh Coal & Navigation Co."
H. A., Wallkill, N. Y.

Earnings of Lehigh Coal & Navigation Company in 1948 were the highest in 23 years. Consolidated net income of the company and its subsidiaries amounted to $3,496,000 or $1.81 per share as compared with $2,650,000 or $1.37 per share in 1947. The net income for 1948 was greater than in any year since 1926.

Lehigh and New England Railway Company, a subsidiary, turned in the best year in its entire history with a net income of $1,890,000. Revenues from anthracite and bituminous coal and cement, the principal commodities hauled by the railroad, all showed substantial increases. Also contributing to the favorable showing during the year is the company's program of dieselization. To date, the company has put into service 12 diesel locomotives and expects to be almost completely dieselized before the end of 1949.

Lehigh Navigation Coal Company, Inc., together with the retail coal yards, Lehigh Materials Co. and its other subsidiaries, earned $183,000 during the year. During the last five months of the year, the company made over $527,000 to overcome the substantial losses incurred in the early months of the year. The results in the latter half of the year offer good promise for early 1949.

Stockholders of the company will be asked to approve an increase of not more than $9,000,000 in the company's authorized indebtedness at the annual meeting April 26th. According to the president, there were no definite plans at present to undertake additional financing. He asserted, however, that the management has been considering the advisability of making additional capital expenditures, converting present short-term bank loans into a long-term loan, and reimbursing the treasury for expenditures for capital improvement.

The present sinking fund mortgage bond, 3¼% series A due October 1, 1970, of which $12,553,000 were outstanding at the close of 1947, would remain. This is part of an original loan issue of $13,000,000. The new loan even might be secure or insecure depending upon plans as they develop. Dividends last year totalled $1.00 per share.

Continental Motors Corporation

"I know Continental Motors lost money in 1947 but have they shown a profit in last year's operations? I have been out of the country and so have not been in a position to keep posted."
S. I., Richmond, Va.

Continental Motors Corpora-

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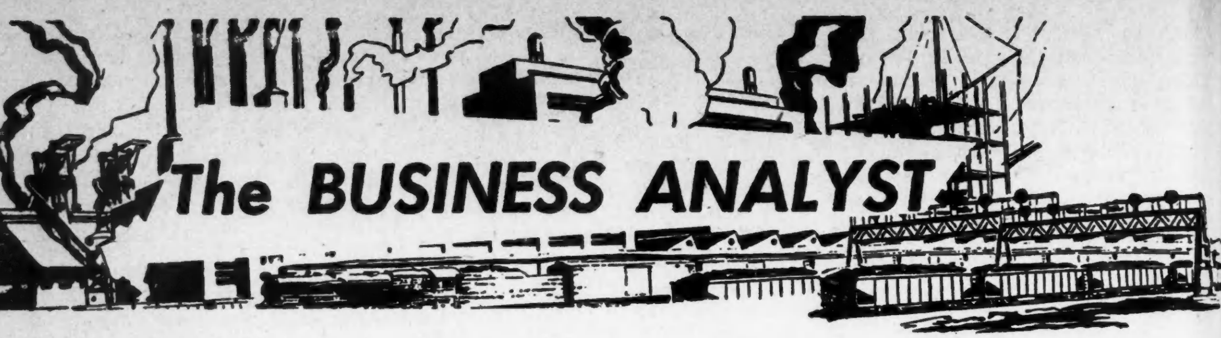
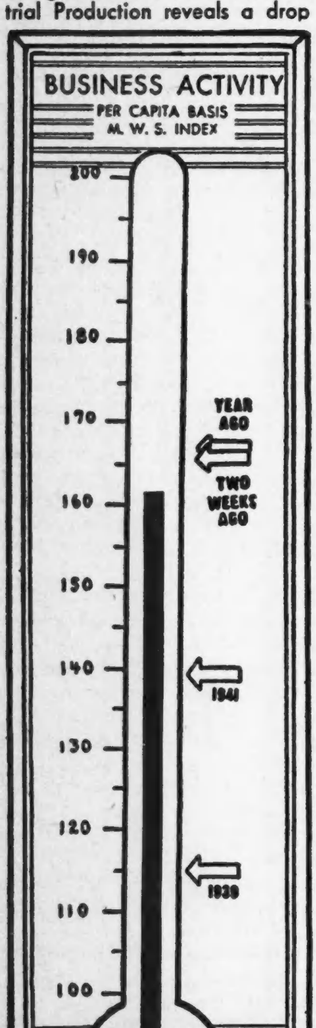


What's Ahead for Business?

By E. K. A.

Against a backdrop of declining employment in manufacturing industries, the Federal Reserve Board Index of Industrial Production reveals a drop in output of less than 1% from December to January. According to the Board's latest estimate, the Index eased off from 192% of its 1936 - 1939 average to 191%, the latter comparing with the 193% rate established in January 1948. As in the preceding month, declining minerals production —chiefly coal—accounted for the largest part of the change. Soft goods production actually went up a point while hard goods output fell two points, in their respective indices. Against this, output of minerals lost five points. Among soft goods, activity at cotton textile, paper and paper board mills were above December, and newsprint consumption showed less than the usual seasonal decline. In the durable goods field, the machinery production index slipped 4% in January, reflecting reductions in output of industrial equipment and household appliances, but output of most other durable goods lines was maintained at about the December level. Steel production rose 2% to the highest point on record, and automobile output also rose.



All in all, an encouraging picture though it hardly tells the whole story. Let's look at the sales picture, as distinct from the production picture. Manufacturers' sales, the Commerce Department says, in January fell $1 billion from December to a monthly level of $17.1 billion, and inventories went up $400 million to a new peak of $32.2 billion. Much of the sales decline was due to the usual winter slowdown, but only about half of the increase in stocks was accounted for by seasonal influences. In other words, inventories rose faster than seasonally justified not only because of declining sales, but due to fairly well maintained production in the face of declining sales. This means that the latter so far have slowed output very little though goods have been backing up.

About three-fourths of the January inventory rise centered in soft goods. Half the increase was seasonal but larger than seasonal accumulations were registered by the food and paper industries. Inventory gains in hard goods lines were limited to $100 million with changes mostly minor.

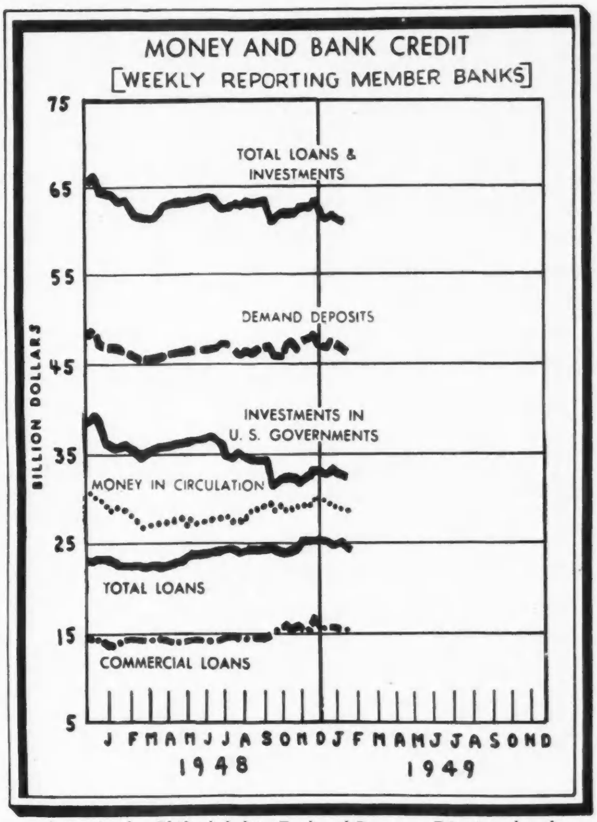
This picture, too, on the whole, is not nearly as dismal as many of the more gloomy observers were inclined to anticipate. In fact it is fairly good. It adds substance to the optimistic view of the Business Survey Committee of the National Association of Purchasing Agents which recently stated that the decline in industrial activity which began in November, and became more noticeable in December and January, has continued through February but that there are definite signs that its force is diminishing with indications that business may level off and maintain the present lower rate for some time. This column is inclined to go along with this view. As previously pointed out, signs of an impending seasonal pick-up are multiplying which in turn means a flattening out of the downtrend. We still have to see how far the latter went during February; it should not be more than a few points in the FRB Production Index.

Another Readjustment Phase

At this writing, the forces tending to accentuate the decline and those cushioning it appear about in balance and the latter, with some seasonal assist, should get the upper hand as we go along. Even so, it will not mean the end of readjustment which will go on. But it should indicate the prospects of stabilizing business at somewhat lower levels at least for the time being though new adjustment phases, probably accompanied by moderate setbacks, may well precede achievement of full postwar stabilization. In other words, what we are presently undergoing is merely another readjustment phase but by no means the last one. Where it will finally hit bottom is anybody's guess at this time beyond the general probability that it will be at a fairly high level unless policies prevail which will make for more serious recession. On the latter score, there is a little more reassurance today than a few months ago, one reason why business sentiment has become less pessimistic. Another is mounting evidence that some seasonal revival of business now appears pretty well assured.

The Business Analyst

HIGHLIGHTS



MONEY AND CREDIT—Common stocks made a double bottom during the fortnight ended Feb. 26. The second bottom was a trifle lower than the first bottom, with all three of our major indexes making another new low since 1947, but sales volume during the second dip was the smallest since the week ended Sept. 18. High grade preferred stocks eased off a little, as did bank stocks; but the latter retained their unbroken record of holding better than the market this year. Foreign government dollar bonds crept up to the highest average level in nearly a year. U. S. Governments continued to advance slowly. Earnings assets of reporting member banks contracted moderately under pressure of deposit withdrawals to meet income tax payments. Reports that South Africa hopes to continue offering of gold at a premium, and that Mexico may follow suit, have prompted the International Monetary Fund to reaffirm its intention of adhering to the $35 price fixed by our Government. Any nation which persists in violating this regulation must withdraw from the Fund.

TRADE—Latest Government reports indicate that per capita personal incomes are still rising at a faster annual rate than the cost of living. The decline in consumer spending since the elections is thus not just due to lack of funds; but to a combination of unseasonable weather, uncertainties as to the business outlook and fulfilment of more urgent war-deferred needs.

INDUSTRY—Business activity dips below last year for first time in nearly three years; but improvement should set in by spring. Hopeful auguries are recent pick-up in new orders for capital goods and in our excess of exports over imports. Lead is now in oversupply; but zinc still scarce. Heavy snowstorms cause slump in January earnings of western railroads. Petroleum industry is taking steps to balance supply with demand. 1949 might witness the anomaly of somewhat smaller profits and larger dividends.

COMMODITIES—Futures have fluctuated narrowly since our last issue; but spot prices rose moderately. The M. W. S. index of raw material spot prices is now nearly 5% above the like date last year. A much poorer comparative showing would be required to spark a business depression of magnitude.

Business Activity contracted nearly 2% during the fortnight ended Feb. 19, to a level 0.6% below the like date last year. This is the first dip below the previous year that has taken place since the brief post-war reconversion slackening that ended in early August, 1946.

* * *

Looking beneath the surface, we find little to cause alarm over the present mild sag in production and trade, which appears to reflect nothing more serious than exceptionally unfavorable weather conditions, a return to pre-war competitive and seasonal practices now that pipe lines in many industries have been filled, and a natural **Post-Election Hesitation** until business men and consumers can form a clearer picture of how far Congress will go along with the President's socialistic program.

* * *

Unfavorable shopping weather, and the now settled transit strike in Philadelphia have also contributed to the slowing down in **Department Store Sales** which, during the week ended Feb. 19, dropped to 8% below the like week last year, compared with a cumulative decline of only 1% for the year to date. In the Philadelphia Federal Reserve District, the slump amounted to 37. In the eleven other Reserve Districts, declines were exceptionally uniform.

* * *

Bargain Basements are doing better than the main stores. In December, the former did 7% more business than in the like month of 1947. In main stores, the gain was only 1%. For 1948 as a whole, the increases were 10% and 3%, respectively. Housewives have become more economy minded.

* * *

But economizing is not limited to housewives, as evidenced by the decline in **Carloadings,** which were 8.7% below last year during the week ended Feb. 5. This means that about 65,000 fewer cars were loaded during that week in the corresponding week of 1948. Around 20,000, or 30%, of the decline was in coal shipments, which are down for reasons previously outlined in this column. Approximately another 18,000, or 27%, are accounted for by loss of business to the trucking industry.

* * *

The steep post-war rise in **Freight Rates** is probably only a minor factor in this diversion of traffic, which reflects little of more ominous portent than a return to pre-war conditions. In 1940, trucks handled 8.4% of the nation's freight shipments. During the war years, their share dropped to 4.6%. By 1947, it had rebounded to 7.9%. Last year, there was a further gain to about 9%—only slightly above pre-war.

* * *

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Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Jan.	1.17	1.20	1.20	1.55
Cumulative from mid-1940	Jan.	377.2	376.0	364.0	13.8
FEDERAL GROSS DEBT—$b	Feb. 23	252.6	252.6	254.6	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Feb. 16	46.1	46.5	47.4	26.1
Currency in Circulation	Feb. 23	27.6	27.5	28.1	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Feb. 16	9.09	9.04	8.85	4.26
93 Other Centers—$b	Feb. 16	13.07	13.17	12.62	7.60
PERSONAL INCOMES—$b (cd3)	Dec.	223	222	210	102
Salaries and Wages	Dec.	141	142	132	66
Proprietors' Incomes	Dec.	52	51	51	23
Interest and Dividends	Dec.	19	18	16	10
Transfer Payments	Dec.	11	11	11	3
(INCOME FROM AGRICULTURE)	Dec.	26	26	26	10
CIVILIAN EMPLOYMENT—m (cb)	Jan.	57.4	59.4	57.1	51.8
Agricultural Employment (cb)	Jan.	6.8	7.4	70.1	8.8
Employees, Manufacturing (lb)	Jan.	15.9	16.3	16.3	13.8
Employees, Government (lb)	Jan.	5.8	6.0	5.5	4.6
UNEMPLOYMENT—m (cb)	Jan.	2.7	1.9	2.1	3.8
FACTORY EMPLOYMENT (1b4)	Jan.	154	159	160	147
Durable Goods	Jan.	181	186	188	175
Non-Durable Goods	Jan.	134	138	139	123
FACTORY PAYROLLS (1b4)	Dec.	378	379	359	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Dec.	39.9	39.7	41.2	40.3
Hourly Wage (cents)	Dec.	137.8	137.1	127.9	78.1
Weekly Wage ($)	Dec.	55.01	54.47	52.69	32.79
PRICES—Wholesale (1b2)	Feb. 22	158.5	158.5	159.9	92.5
Retail (cdlb)	Dec.	192.5	193.4	188.4	116.2
COST OF LIVING (1b3)	Dec.	171.4	172.2	167.0	110.2
Food	Dec.	205.0	207.5	206.9	113.1
Clothing	Dec.	200.4	201.4	191.2	113.8
Rent	Dec.	119.5	118.8	115.4	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Jan.	9.50	13.17	9.68	4.72
Durable Goods	Jan.	2.47	3.31	2.51	1.14
Non-Durable Goods	Jan.	7.03	9.86	7.17	3.58
Dep't Store Sales (mrb)	Jan.	0.64	1.40	0.64	0.49
Retail Sales Credit, End Mo. (rb2)	Dec.	7.98	7.45	6.45	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Dec.	243	254	252	181
Durable Goods	Dec.	290	277	292	221
Non-Durable Goods	Dec.	214	240	228	157
Shipments (cd2)—Total	Dec.	342	352	330	187
Durable Goods	Dec.	395	399	360	227
Non-Durable Goods	Dec.	311	324	312	158
BUSINESS INVENTORIES, End. Mo.					
Total—$b (cd)	Dec.	54.0	55.4	48.0	28.9
Manufacturers'	Dec.	31.8	31.2	28.0	16.7
Wholesalers'	Dec.	8.3	8.5	7.6	4.1
Retailers'	Dec.	13.9	15.7	12.4	8.1
Dept. Store Stocks (mrb)	Dec.	3.1	2.6	1.9	1.4
BUSINESS ACTIVITY—1—pc	Feb. 14	162.6	164.4	166.3	141.8
(M. W. S.)—I—np	Feb. 14	186.0	188.1	187.3	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 641)

Class I **Railroads** showed an average return of only 4.38% on net property investment last year, at the height of the business boom. To be sure, this was an improvement over the 3.46% earned in 1947; yet 22 of the roads failed last year even to cover interest and rental charges. In December, Class I roads earned 24% less than in the like month of 1947. For January of the current year, heavy snow storms caused a severe slump in net reported by some of the western carriers.

* * *

This year's drop in freight traffic is largely responsible for the current decline in orders for freight cars, and for rather widespread layoffs of repair shop and other railroad workers. But the number of **Locomotives** on order as of Feb. 1 was 3% ahead of last year and the largest (1,563) for any like date on record.

* * *

Many of the much publicized **Layoffs** this year are of transient character induced by unfavorable weather conditions, steel shortages, model change-overs, return of pre-war seasonal patterns, or other special circumstances. This is especially true among the coal carriers and western railroads. Considerable re-hiring is already being reported. It should be noted that artificial obstructions to production and traffic of temporary nature serve to build up a backlog of deferred demand which postpones, and does not of itself precipitate a business recession. This general principle is particularly applicable to instances of strikes, storms, floods, etc.

* * *

In material shortages we have another apt illustration of how deferred demand serves to prolong a period of prosperity. If everyone could obtain all he wants immediately, there would be a precipitate drop in sales and production. One important reason for believing that the post-war business boom is flattening out is the virtual disappearance of scarcities. We have now reached a juncture where **Zinc** is among the few remaining material scarcities; though, of course, there is still a large unfilled demand for moderate-cost dwelling units. Zinc stocks at the end of January were less than half as large as a year earlier.

* * *

On the other hand, domestic and imported supplies of **Lead** have so far ex-

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Jan.	191	192	193	174
Mining	Jan.	151	156	154	133
Durable Goods Mfr.	Jan.	229	231	229	220
Non-Durable Goods Mfr.	Jan.	174	173	178	151
CARLOADINGS—t—Total	Feb.19	697	699	805	833
Manufactures & Miscellaneous	Feb. 19	344	339	380	379
Mdse. L. C. L.	Feb. 19	95	95	104	156
Grain	Feb. 19	38	40	35	43
ELEC. POWER Output (Kw.H.)m	Feb. 19	5,650	5,722	5,254	3,267
SOFT COAL, Prod. (st) m	Feb. 19	10.8	11.4	12.5	10.8
Cumulative from Jan. 1	Feb. 19	79.0	68.2	90.3	446
Stocks, End. Mo.	Dec.	69.4	69.6	52.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Feb. 19	5.4	5.3	5.3	4.1
Gasoline Stocks	Feb. 19	123	120	110	86
Fuel Oil Stocks	Feb. 19	80	82	50	94
Heating Oil Stocks	Feb. 19	59	62	34	55
LUMBER, Prod. (bd. ft.) m	Feb. 19	386	395	507	632
Stocks, End Mo. (bd. ft.) b	Dec.	7.7	7.4	5.6	12.6
STEEL INGOT PROD. (st.) m	Jan.	8.17	7.77	7.47	6.96
Cumulative from Jan. 1	Jan.	8.17	88.5	7.47	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Feb. 24	76	147	129	94
Cumulative from Jan. 1	Feb. 24	1,129	1,054	818	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Feb. 19	152	155	160	165
U. S. Newsprint Consumption (st)t	Jan.	421	466	375	352
Do., Stocks (mpt), End Month	Jan.	644	629	540	523
Cigarettes, Domestic Sales—b	Dec.	24.7	29.1	24.9	17.1
Whiskey, Dom. Sales (tax gals.)m	Dec.	4.0	6.6	5.5	8.1
Do., Stocks, End Month	Dec.	560	548	456	504

PRESENT POSITION AND OUTLOOK

ceeded demand during the past few months that inventories by the end of December had climbed to a level 86% higher than a year earlier. A prime cause of the drop in demand is a slump in the storage battery industry, which normally takes about a third of all lead consumed in the United States. Currently, Government stockpiling is taking about 15% of domestic lead output. Unless the rate is stepped up, or imports are cut off, the price (now 300% above pre-war 1939) will have to come down, or production to be curtailed.

* * *

The December report on **New Orders** for durable goods discloses an encouraging reversal of the disappointing decline reported for the two previous months. Whereas new orders for durable goods in October had shown a decline below the previous year approximating 4%, which widened to 10% in November, the gap for December narrowed to less than 1%. In January, new orders for **Machine Tools** were actually larger than a year earlier by 4%, and the highest since June, 1947.

* * *

Another favorable omen in the business outlook is the recent sharp upturn in our **Excess Exports.**

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

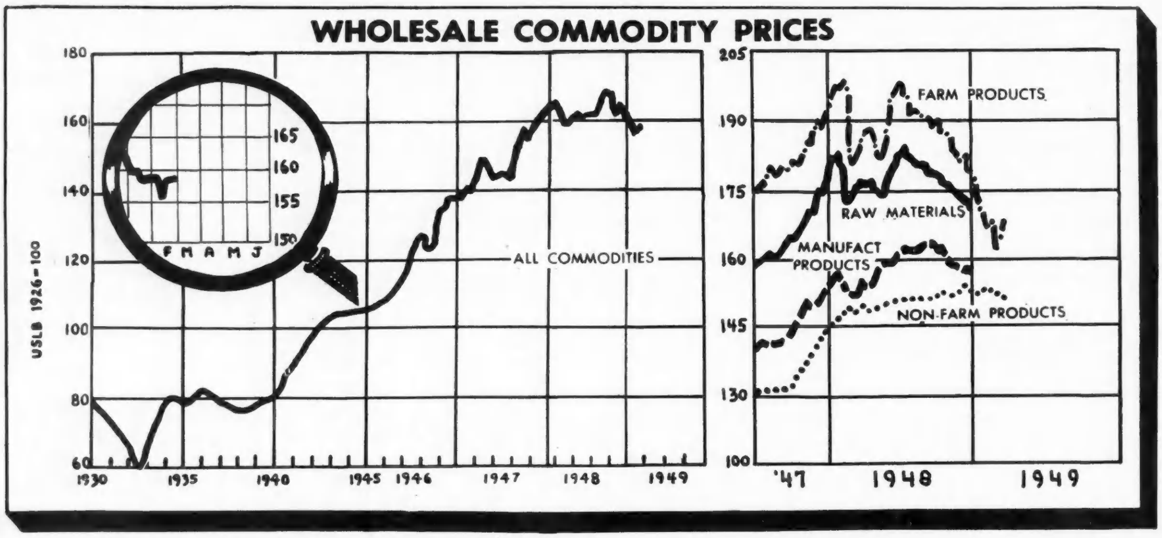
No. of Issues (1925 Close—100)	1948-9 Indexes High	Low	Feb. 19	Feb. 26
320 COMBINED AVERAGE	151.9	115.5	118.0	115.5b
4 Agricultural Implements	240.1	169.4	178.9	169.4b
10 Aircraft (1927 Cl.—100)	193.5	134.3	153.9	155.1
6 Air Lines (1934 Cl.—100)	515.6	342.1	383.7	402.7
6 Amusement	106.8	73.0	85.1	81.8
12 Automobile Accessories	224.1	164.1	170.6	164.9
12 Automobiles	41.3	24.2	25.3	24.2e
3 Baking (1926 Cl.—100)	21.9	16.4	18.9	18.7
3 Business Machines	297.1	215.9	220.8	219.8
2 Bus lines (1926 Cl.—100)	168.4	118.3	121.2	122.8
5 Chemicals	267.1	218.0	226.2	220.8
3 Coal Mining	26.9	14.7	15.9	15.3
4 Communication	56.1	35.0	36.1	35.0g
13 Construction	71.5	52.3	54.4	52.7
7 Containers	346.0	263.5	266.1	263.5
9 Copper & Brass	119.1	83.7	86.3	83.7d
2 Dairy Products	60.2	50.7	54.1	53.3
5 Department Stores	71.9	49.9	51.7	49.9d
6 Drugs & Toilet Articles	184.4	140.2	143.0	142.0
2 Finance Companies	268.3	199.4	250.1	242.6
7 Food Brands	177.6	146.0	148.1	148.1
2 Food Stores	67.5	57.9	64.4	63.4
3 Furniture	88.3	59.7	64.3	59.7e
3 Gold Mining	772.7	515.1	640.6	641.7

(Nov. 14, 1936, Cl.—100)	High	Low	Feb. 19	Feb. 26
100 HIGH PRICED STOCKS	91.84	74.54	76.12	74.54b
100 LOW PRICED STOCKS	182.86	130.57	133.28	130.57
6 Investment Trusts	71.6	50.0	55.8	54.5
3 Liquor (1927 Cl.—100)	843.5	630.7	652.3	634.7
10 Machinery	179.5	122.9	125.5	122.9
3 Mail Order	125.5	89.8	93.3	91.8
3 Meat Packing	112.7	72.0	73.4	72.0d
12 Metals, Miscellaneous	189.1	138.0	141.2	142.0
4 Paper	48.7	33.1	33.9	33.1b
29 Petroleum	301.0	199.5	217.7	210.9
21 Public Utilities	124.9	97.8	107.4	106.6
6 Radio (1927 Cl.—100)	30.6	17.8	18.8	17.8
9 Railroad Equipment	67.2	42.1	44.4	42.1f
24 Railroads	30.3	19.5	20.1	19.5b
3 Realty	27.1	21.1	22.6	22.1
3 Shipbuilding	150.8	107.8	125.7	124.7
3 Soft Drinks	516.5	298.2	332.5	331.0
14 Steel & Iron	127.0	95.3	101.3	95.3b
3 Sugar	54.7	42.0	43.4	42.0e
2 Sulphur	281.9	206.6	244.1	243.4
5 Textiles	170.4	118.4	122.8	118.4b
3 Tires & Rubber	34.5	27.5	29.7	29.4
6 Tobacco	71.7	62.4	70.9	70.3
2 Variety Stores	327.8	286.9	315.2	311.4
17 Unclassied (1947 Cl.—100)	109.8	83.8	87.2	83.8b

New LOW since: b—1947; d—1945; e—1944; f—1943; g—1942.

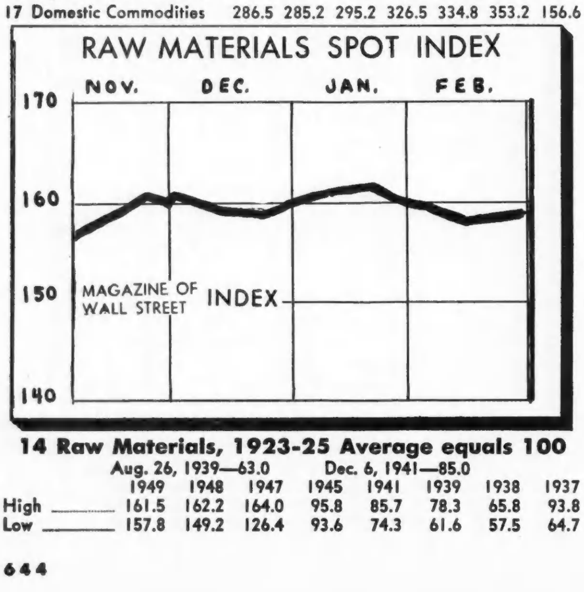
Trend of Commodities

Farm commodity futures have fluctuated narrowly since our last issue, with little net change on the fortnight. Spot prices, however, displayed moderate improvement. As this is written, the M. W. S. index of raw material spot prices shows no significant change from last year's closing level. This is in marked contrast with the 5% decline that took place during the first two months of 1948. For this reason, the index is now 5% higher than a year ago. The showing offers little ground for pessimism over the near term business outlook. In efforts to support prices the Government has resorted to a number of expedients in addition to those previously mentioned in this column. The Army has switched meat purchases from Argentina to the U. S., at double the price. All export restrictions on fats and oils have been lifted. Support programs have been launched for butterfat and dry milk solids. Grade A butter in carload lots will be bought at 59 cents a pound up to Sept. 1, and 62 cents thereafter. Federal support of hog prices at 90% of parity will be continued through March, 1950. But the support price for potatoes has been lowered from last year's 90% of parity to 60% for this year's crop, with recommendations for a 200,000 reduction in acreage planted. To qualify for support, producers must stay within the acreage goals. Last year the public got the poorer grade potatoes, because the Government paid premiums for the better grade. This year the error will be corrected by the Government paying a uniform price, regardless of quality. Under this program Uncle Sam will get the culls instead of the consumer. Late reports indicate that storm damage to livestock will be negligible. Best estimates indicate that losses will be around 5% in the eight storm-struck states, which raise only 6.5% of the nation's meat animals.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

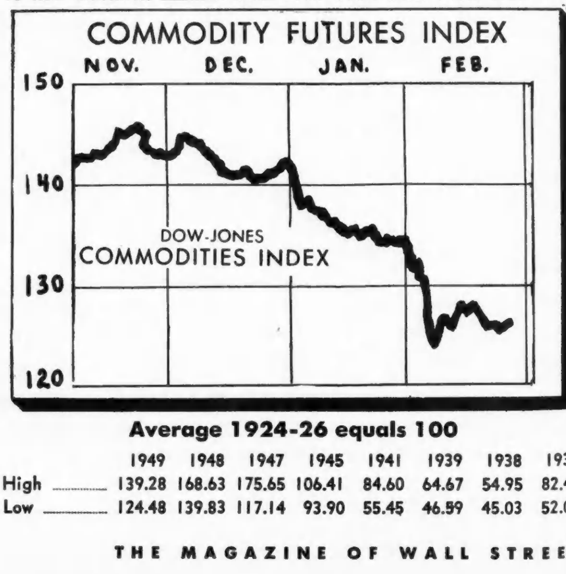
	Date Feb. 28	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	272.9	273.4	283.3	305.5	313.5	322.2	156.9
11 Imported Commodities	253.1	256.2	265.8	275.6	283.3	279.7	157.3
17 Domestic Commodities	286.5	285.2	295.2	326.5	334.8	353.2	156.6
7 Domestic Agriculture	298.2	291.1	301.8	320.9	348.6	375.9	163.9
12 Foodstuffs	292.6	288.6	303.8	345.9	374.1	398.0	169.2
16 Raw Industrials	266.2	270.7	286.4	280.0	278.3	272.7	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	157.8	149.2	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	124.48	139.83	117.14	93.90	55.45	46.59	45.03	52.03

Outlook for Building Shares for 1949

(*Continued from page* 630)

automotive use often add to volume potentials, though shingles and sidings predominate in importance. Since there is little to indicate a significantly reduced demand for most of these products in the current year, sales and earnings of the stronger concerns are not likely to vary much from last year's showings.

Outstanding in this field is Johns-Manville Corporation, about 65% of whose output finds a market with the building industry. This aggressive concern imports most of its asbestos from Canada where it owns valuable mines. Completion of a $50 million postwar expansion program has provided the company with a string of large new mills, completely modernized older facilities and effected economies at the mine level. Reflecting these improvements, 1948 volume soared to an all-time high of $173 million and the management has optimistically predicted a further rise to around $200 million in the current year. While margins have narrowed, the greater volume has increased dollar earnings and 1949 is apt to net at least the $5.22 per share reported last year.

Ruberoid Company, a consistent dividend payer since 1889, is well entrenched in markets where asbestos and asphalt products are in strong demand. Considering that this business is exposed to wide fluctuations in raw material prices as well as demand over the long term, the company's excellent record attests to first class managerial efficiency.

Paint manufacturers are likely to do well, too, although over-all volume and earnings of the group may recede moderately from the high levels established a year earlier. Higher prices proved beneficial during 1948 at a time when both new building and replacement demand created large sales. This branch of the industry, however, is highly competitive, with almost 800 concerns in the field. Now that prices for many paint ingredients have declined, lower prices probably are in store for the finished products, thus placing more emphasis upon the retention of brand popularity. In other words, it should be easier for some of the better known competitors to retain satisfactory margins than for many of the smaller enterprises, although the process will entail increased promotional expenses. Provided that national income this year remains at a fairly high level, the industry can count on satisfactory sales, but earnings probably will develop a slight downtrend of 10% or perhaps 15%.

If building activities continue to hum in the current year, producers of flat glass should equally prosper. Three companies, Pittsburg Plate Glass, Libbey-Owens-Ford and American Window Glass account for about 75% of the industry's total output, while the first two concerns also produce about 90% of all plate glass manufactured. Little doubt exists as to well sustained demand for plate glass, with both the building and automotive industries likely to operate at a high rate. Following decontrol of prices in 1946, those of window glass have risen only 28% and those of plate glass only 24%, thus leaving room for further adjustments if manufacturing costs pinch unduly upon margins.

Producers of heating and plumbing equipment anticipate only a minor letup in demand for their specialties. Manufacturers of fuel oil burners in fact may experience an upturn now that apprehension over fuel shortages has completely vanished. While competition has become intense, not only among various companies but also between different heating methods, operations should benefit from improved materials supplies. Earnings of strongly established specialists in these two fields may not equal last year's height but will probably level off on a plateau that would well justify continuance of dividends at current rates.

Market Action

While shares in the building materials group have recently displayed some strength pricewise compared with those in other divisions, low price-earnings ratios and high yields attest to the broad psychological influences that have depressed the general market. In studying the pros and cons of this industry, it appears that quite a number of equities with strong fundamentals and a reassuring outlook now carry considerable speculative appeal. With proper selectivity and timing it should be possible to acquire sound shares in this group with interesting yields and favorable potentials for eventual appreciation.

Office Equipments Battling Competition

(*Continued from page* 633)

month a year earlier, though deliveries are now possible within a few months on the more elaborate machines. It is significant that broader markets have been opened for the higher grade cash registers due to the embodiment of accounting features to supplement their primary functions. International Business Machines, a consistent dividend payer since 1916, has been a foremost developer of mechanized office equipment, and its wide employment of time leases for its devices should continue to stabilize volume on an exceptionally high level in the current year.

Perhaps as good a sample of consistent growth as any is furnished by Burroughs Adding Machine Company, and recent steps taken to maintain its postwar progress under changing conditions are interesting. A year ago, Burroughs enjoyed backlog orders of $86 million, but stepped-up deliveries of standard adding and table calculating machines have now whittled this down so far that the company has recently given notice to more than 500 employees. On the other hand, Burroughs took on just about this same number of trainees for the selling force last year, and has now turned them loose among its 352 branches throughout the country.

Emphasis from now on will be on selling as well as on production in its enlarged and modernized facilities. These policies should stabilize sales of its regular products and enhance potentials of the improved microfilm equipment which the company will soon distribute under contract with the producer, Bell & Howell. This will be a broad new field for Burroughs but fits in admirably with its own line of cost saving devices. The new microfilm equipment is claimed to have startling improvements over competitive devices both as to efficiency and price. How importantly the new line could ulti-

(*Please turn to page* 648)

UNION CARBIDE AND CARBON CORPORATION AND SUBSIDIARIES

OPERATING IN UNITED STATES AND CANADA

UCC

CONSOLIDATED BALANCE SHEET

December 31, 1948

ASSETS

CURRENT ASSETS		
Cash		$102,136,913
United States Government Securities (Cost or Market, whichever lower)		54,975,562
Other Marketable Securities (Cost or Market, whichever lower)		1,257,161
RECEIVABLES (After Reserve for Doubtful)		
Trade Notes and Accounts	$ 59,015,301	
Other Notes and Accounts	12,462,959	71,478,260
INVENTORIES (Cost or Market, whichever lower)		
Raw Materials and Supplies	$ 48,310,515	
Work in Process	36,204,242	
Finished Goods	41,627,230	126,141,987
TOTAL CURRENT ASSETS		$355,989,883
FIXED ASSETS (Cost or less)		
Land, Buildings, Machinery, and Equipment	$631,729,639	
Deduct—Reserves for Depreciation and Amortization	301,435,529	330,294,110
INVESTMENTS (Cost or less)		
Affiliated Companies	$ 6,288,107	
Foreign Subsidiaries	24,046,204	30,334,311
DEFERRED CHARGES		
Prepaid Insurance, Taxes, etc.		4,447,538
POSTWAR REFUND OF EXCESS PROFITS TAX (Canadian Subsidiaries)		1,626,691
PATENTS, TRADE-MARKS, AND GOODWILL		1
		$722,692,534

LIABILITIES

CURRENT LIABILITIES		
Accounts Payable		$ 31,370,166
Dividend Payable January, 1949		14,403,657
ACCRUED LIABILITIES		
Income and Other Taxes	$ 70,369,500	
Interest	337,500	
Other Accrued Liabilities	8,468,620	79,175,620
TOTAL CURRENT LIABILITIES		$124,949,443
2.70% PROMISSORY NOTES PAYABLE DECEMBER 1, 1967 (See Note 2)		150,000,000
RESERVE FOR CONTINGENCIES		6,541,043
CAPITAL STOCK OF UNION CARBIDE AND CARBON CORPORATION		
No Par Value—Not Including 409,947 shares held by the Corporation		
27,877,314 shares	$194,468,771	
930,000 shares held by the Corporation as collateral under the Stock Purchase Plan for Employees (See Note 3)	32,889,684	
28,807,314 shares	227,358,455	
Less present amount of Agreements	32,660,376	
	194,698,079	
EARNED SURPLUS	246,503,969	441,202,048
		$722,692,534

CONSOLIDATED INCOME AND SURPLUS STATEMENTS

Year Ended December 31, 1948

INCOME STATEMENT

INCOME		
Gross Sales—Less Discounts, Returns, and Allowances	$631,619,557	
Other Income (Net)	8,394,899	$640,014,456
DEDUCTIONS		
Cost of Goods Sold, Selling, General, and Administrative Expenses	$454,705,410	
Depreciation and Depletion	21,742,995	
Interest on 2.70% Promissory Notes	4,050,000	
Income Taxes	57,180,998	537,679,403
NET INCOME FOR THE YEAR		$102,335,053
Net Income Per Share—On 28,807,314 shares outstanding December 31, 1948	*$3.55*	

SURPLUS STATEMENT

EARNED SURPLUS AT JANUARY 1, 1948		$195,195,410
ADDITIONS		
Net Income for the Year	$102,335,053	
Increase in Market Value of Marketable Securities at December 31, 1948	4,746	
Reduction of Valuation Reserve—Securities sold during the year	11,375	
Cancellation of Deferred Liabilities Under Government Contracts	1,648,144	103,999,318
		$299,194,728
DEDUCTIONS		
Dividends Declared		52,690,759
EARNED SURPLUS AT DECEMBER 31, 1948		$246,503,969

NOTES RELATING TO FINANCIAL STATEMENTS—1948

1—The principles used in preparing the accompanying consolidated statements for the year 1948 are as follows:

All subsidiary companies that are one hundred per cent owned, and operate in the United States and Canada, are consolidated.

Current assets, deferred charges, current liabilities, and income of Canadian subsidiaries consolidated are converted at the official rate of exchange. Other assets and liabilities of Canadian subsidiaries consolidated are converted at the prevailing rate at time of acquisition or assumption.

Foreign subsidiary companies, one hundred per cent owned, and affiliated companies, less than one hundred per cent but not less than fifty per cent owned, are shown as investments. As of the date of latest financial statements, some of which are unaudited, the Corporation's equity in the net assets of these companies exceeded the amount at which these investments are carried by $13,846,954. The Corporation's equity in the net assets of these companies increased $3,558,412 between January 1, 1938 (or date of acquisition, whichever is later), and the date of latest financial statements. Of this increase, $3,226,387 is applicable to the current period.

Income includes dividends paid by foreign subsidiaries and affiliated companies out of surplus earned since date of acquisition.

2—Promissory Notes provide for annual payments of principal in the amount of $10,000,000 beginning on December 1, 1953.

3—During 1948 the Corporation entered into Agreements with 318 employees, including 6 directors, all of whom devote their full time to the Corporation, and 5 officers who are not directors, covering 122,650 shares of its capital stock under the Stock Purchase Plan for Employees as approved and authorized by the stockholders in 1946. The Agreements set forth a price of $104.50 per share, which was the closing quotation on the New York Stock Exchange on the date preceding the offering. Under the terms of the Plan the price or prices shall be such price or prices as shall be fixed by the Board of Directors in its discretion, but not lower than seventy-five per cent of the market price. The Agreements provide that each participant has five years to complete payment, and that interest at the rate of two per cent per annum will be paid on the unpaid balance. The Board of Directors may take such action from time to time with respect to extension of time of payment as in the discretion of the Board is in the best interest of the Corporation. Stock covered by the Agreements is pledged by the participating employees as collateral security for payment. Shares in blocks of 25 are released from the pledge to the participants as payment therefor is completed. Each participant has also agreed to apply against the unpaid balance the amount, if any, by which the dividends paid to him on the pledged shares exceed the interest. The Plan provides that if a participant shall die the Corporation will offer, for a period of six months following his death, to repurchase the unpaid-for shares at the price to be paid by the participant. After giving effect to the three-for-one stock split on April 21, 1948, the shares covered by Agreements entered into since the adoption of the Plan in 1946 aggregate 973,950 shares of which 930,000 shares are held by the Corporation as collateral.

4—No final settlement of the refund to the Government for the year 1945 under the Renegotiation Act has been made. In 1947 the Accrued Provision for Wartime Adjustments was charged with $271,196, representing the estimated cash refund to the Government. Should an additional amount be required upon final settlement it will be charged to the Reserve for Contingencies.

5—Union Carbide and Carbon Corporation has agreed to maintain the assets held by the Trustee of the Savings Plan for Employees in an amount sufficient to permit the distribution of the Trust Estate to the persons entitled thereto.

AUDITORS' REPORT

TO DIRECTORS AND STOCKHOLDERS OF
UNION CARBIDE AND CARBON CORPORATION:

We have examined the balance sheet of Union Carbide and Carbon Corporation and its one hundred per cent owned subsidiaries operating in the United States and Canada, as of December 31, 1948, and the related statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and surplus present fairly the financial position of Union Carbide and Carbon Corporation and its subsidiaries consolidated at December 31, 1948, and the results of its consolidated operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HURDMAN AND CRANSTOUN
New York, N. Y., February 26, 1949 — Certified Public Accountants

Trade-marked Products of Divisions and Units of UCC include

LINDE Oxygen • PREST-O-LITE Acetylene • PYROFAX Gas • BAKELITE, KRENE, VINYON, and VINYLITE Plastics
NATIONAL Carbons • EVEREADY Flashlights and Batteries • ACHESON Electrodes
PRESTONE and TREK Anti-Freezes • ELECTROMET Alloys and Metals • HAYNES STELLITE ALLOYS • SYNTHETIC ORGANIC CHEMICALS

mately benefit volume and earnings is shown by reports that the initial order of Burroughs is reported to involve several million dollars.

Shares in the office equipment group have been markedly deflated by general uncertainties overhanging the economy, disappearance of backlogs and strong evidence that 1949 may bring a downtrend in volume and earnings. But in studying the industrial picture, there seems valid reason to assume that current prices have rather liberally discounted most of the difficulties that may crop up in the current year. Reference to the appended table will show that even if dividends in many instances were cut in two, the yield at present prices would normally be considered still satisfactory. Additionally, dividends in relation to earnings are on the whole conservative, providing quite a cushion in cases where net may shrink.

What Is Behind the British Gold Deal with South Africa?

(*Continued from page* 621)

of a luxury or semi-luxury nature, were wholly prohibited regardless of the country of origin.

The second accompanying table, dealing with South Africa's international balance of payments, throws light on the task confronting Finance Minister Havenga. First, he must cut down imports by at least 25 to 30 per cent. As was already pointed out, this will be difficult because the domestic industries will require increased quantities of raw materials and more equipment if they are to make up for the reduction in consumer goods imports. Even if everything goes well, the payment for imports, shipping charges, and the transfer of dividends may require around £275 million ($1,100 million) in 1949.

To what extent can this amount be paid for by exports? The merchandise exports will probably *bring about £125 million.* Exports of some products, such as manganese, could unquestionably be expanded (and would make the United States less dependent on Russia), but it is a long-range proposition. The newly mined gold, if shipped at the official price, would produce at most some £100 million. Thus a deficit of some £50 million remains to be settled. What are the chances of doing so?

One solution is through borrowing. Last December, South Africa borrowed $10 million from the International Monetary Fund. More recently it applied to the Export-Import Bank for a $100 million short-term trading credit, and as an inducement South Africa offered to "minimize" restrictions on imports from this country.

The most logical way of paying for the import deficit would be by expanding the production of gold. But the mines cannot increase their mining activities without a reduction in production costs, or without selling gold at a higher price. One way of reducing costs would be by a lowering of the heavy taxes that the gold mines have to pay. But the recently presented budget is larger than ever before, and the gold mines are by far the largest contributors of revenue. As a matter of fact, gold production costs are more likely to increase if even a part of the recently claimed wage demands are granted. The unions have been asking for a 30 per cent wage increase which, if granted, would result in the closing of nearly one-half of the gold mines. As to the new fields in the Orange Free State, it is estimated that it will take at least $1 billion of South African and foreign capital to get the new mines going during the next five years.

Under the circumstances, it is no wonder that more and more South Africans argue that the way out of the present tightening crisis is either to sell the newly mined gold at "whatever the traffic will bear," or to devalue the South African pound. The first alternative is preferable, because the devaluation of the pound at this time could easily bring about a substantial rise in prices and subsequently in the production costs of the gold mines. This would defeat the purpose of devaluation: to enable the gold mines to expand their production, and to carry out the development of the new fields.

Investment Audit of International Nickel

(*Continued from page* 624)

that Canadian currency is used to meet payrolls in Canada. There would seem to be a possibility of wider profit margins in such a development.

Financial position has been maintained at a high standard despite exceptional needs for capital improvements to keep pace with military demands and to counteract rising labor costs. Year-end figures for 1948 had not been published at the time of this writing, but it is believed that current assets far exceed current liabilities. As of September 30, 1948, the ratio was 6.3 to one. The balance sheet then showed cash and government securities of only slightly less than $100 million, or about 60 per cent of current assets. Capital expenditures were projected at about $12 million for last year, compared with $9.6 million in 1947.

Capitalization is simple, consisting of 276,271 shares of 7 per cent preferred stock of $100 par value (allowing for part of the issue in $5 par) and 14,584,025 shares of no par value common stock. There is no funded debt. The shares have ranged as high as 73⅜ in 1937 and as low as 19⅜ in 1940. Dividend disbursements have been no higher than at present except in 1937, when payments came to $2.25 a share. On basis of past and prospective earnings and dividends, as well as price behavior, the shares appear modestly appraised around a level yielding about 7 per cent on the $2 dividend. The current price of 28 compares with a range for the year to-date of: High 31¼, Low 27⅞.

Answers to Inquiries

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tion and consolidated subsidiaries, including Wisconsin Motor Corporation, had net earnings of $3,378,123 in the fiscal year ended October 31, 1948. This was equal to $1.02 per share on outstanding common stock. It compared with net loss of $1,292,874 for the same companies in the preceding fiscal year.

Consolidated net sales last year were $108,157,527 aaginst $91,505,042 in 1947. Net working capital at October 31, 1948 was $20,486,835 against $19,053,117 a year earlier. Engine prices were raised moderately in 1948 to offset advancing costs of materials, parts and labor, but manufacturing economies resulting from larger production, and reduction in abnormal expenses such as were incurred in 1946 and 1947, contributed even more to improvement in earnings.

There has been some softening in demand since the close of the 1948 fiscal year, but operations of the company have continued on a satisfactory basis. Efforts are being concentrated this year on further cost reductions and improvement in efficiency. Important gains in these respects have already been made by the company and are expected to be reflected in earnings in the current year.

Company has resumed dividends with payment of 10 cents a share on March 3, 1949. Previous dividend was 15 cents a share on May 29, 1946.

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Deflation Constructive . . . Though Painful

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sional attitude towards taxes; the legislators are aware that any upping of the tax load could have serious repercussions at this time.

Broadly speaking, orderly deflation by bringing about better economic balance and eliminating still existing maladjustments will be beneficial all around despite the pangs and pains that ordinarily accompany such an adjustment process. Not only that, orderly deflation now will avoid a situation later on where it may be much more difficult to correct things without more incisive repercussions. Where living costs and prices generally remain high or even rise further, existing price-income disparities would be accentuated with ultimately far more drastic repercussions consequences.

Varying Impacts

As usual in every deflationary phase, some will benefit, some will be hurt. We have already discussed possible adverse, though temporary impacts on business and industry. Another segment of the economy that will find things less easy is agriculture. Farmers face lower incomes despite official price supports (at the tax payer's expense) but farm income as a whole should remain quite satisfactory. But the former boom conditions are likely to be over.

As it is, those who gained most from the price and income rises during inflation will lose some of their advantages when price trends turn down. The farmers are prominent among this group though they enjoy effective safeguards against being hit too hard. Labor whose income on the whole has seldom lagged behind prices, will face more lay-offs and shorter work weeks, at least until the situation has stabilized. On the other hand those living on fixed incomes and probably the majority of salaried workers — groups hardest hit by inflation — will gradually gain as living costs decline though they are unlikely to recoup fully their former purchasing power.

Broadly viewed, perhaps the greatest advantage of deflation will be resurgence of demand that is expected to follow in the wake of lower prices. The minimum anticipation is stabilization of demand at levels that will continue to make for generally prosperous conditions. From this standpoint, the sooner adjustment is completed, the better it will be all around, and it would therefore be deplorable if anything were allowed to interfere with it such as by injection of artificial stimulants which at best can be only temporarily effective, or by unwise intervention in business which could easily turn adjustment into recession or worse.

Foreign Trade Aspects

Lower prices will also bolster our foreign trade potentials by enabling us to compete better in the world markets. Exports today are a big factor in the economy, productive of a great deal of employment which otherwise would not exist. But international competition is getting keener as world production is returning to prewar levels. To hold our own in the forthcoming struggle for world markets, we need a sensible deflation of our high price structure. Without it we cannot hope to compete effectively with other countries, nor find markets for our agricultural surpluses except on a highly subsidized or give-away basis in which event the taxpayer foots the bill.

Not A Danger

Properly viewed, a return to more normal business and price conditions presents an opportunity, not a danger. In the past we have accepted with great enthusiasm new high records regardless of how unsound or artificial the means by which they were attained. In the face of signs of a return to more normal times, though these may mean the end of record setting and of the lush profits to which business has become all too readily accustomed, there is need for straight thinking and above all a positive, not negative attitude towards readjustment. At the very least, this should mean full realization of the constructive side and not one-sided and alarming emphasis on the painful aspects of the fundamental transition in which business and industry today find themselves.

For Profit and Income

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than the average of the paper industry — thus, only from $2.80 a share in 1937 to $2.04 in the depression year 1938. The substantial plant expansion of the last couple of years, now completed, is believed solidly founded, with sales and earnings likely to hold much above prewar. Earnings this year will be somewhat under 1948's $6.02 a share but well over 1948's dividend payments of $2.50, which are likely to continue. On this basis the stock, now around 32, yields about 7.8%. The 1946 high was 55¼, the extreme 1942 bear-market low was 17⅜. Hence, the stock is nearer the low in this range than the high.

Gold

The better action of gold stocks, maintained for some weeks, reflects hope that the end of the postwar cycle of inflation means lower mining costs and, therefore, improved profits. No change in official U. S. or Canadian gold prices (currency valuation in gold) is foreseeable. Of the listed issues, McIntyre Porcupine Mines (Canadian) is one of the best. Earnings for the fiscal year ending March 31 probably will be very close to last year's $3.04 a share. They have varied little over the last six years, due to superior control of costs and the stabilizing effect of a substantial investment income. Dividends last year were $3.01½ (in Canadian currency). With the stock around 46, the yield is 6.5% and secure. In theory this is partly a return of capital, but in this case the exhaustion of profitable ores is too distant a contingency to be calculated. The great Homestake mine has been producing since 1877. Whether McIntyre Porcupine will match that record is for the future to reveal.

Year-End Statements and First Quarter Trends

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previous periods. The expected high level of new construction in 1949 should aid in keeping earnings of this experienced manufacturer close to peak proportions, unless affected by increased taxes.

Although net earnings of Western Auto Supply Company amounted to $7.65 per share last year compared with $5.60 in 1947, they failed to equal the $10.04 reported in 1946. The improvement in 1948, though, came despite slightly reduced volume, thus evidences increased efficiency of operations. Sales of $69.3 million in 1948 were lower by $1.4 million than in the previous year, but operating margins expanded to 12.6% against 10.2%. This exceptional circumstance was accounted for partially by reduced inventory mark-downs, better balanced stocks in the company's 263 retail stores and generous gross margins. Since Western Auto Supply has never failed to operate at a profit in any year since 1916, its earning capacity has been amply demonstrated though annual results have varied. The management is cautious in predicting operations in the current year, due to the levelling off of inflation and

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READ ABOUT
SOUTH AFRICA'S
LATEST GOLD DEAL
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Is Steel Supply Near Balance?

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that payroll costs will have to be raised moderately. In this respect much will hinge on the course taken by living costs in near term months. But in view of the record earnings reported by the industry last year and its favorable outlook for 1949, some wage concessions are not at all unlikely unless there is a further weakening in the general economic situation.

The mild weather this winter in the East has produced a record amount of bituminous coal above ground, estimated around 11 million tons. In this respect the steel mills are believed to have fortified themselves to a point where production could be continued for almost two months in the event of another coal strike, a striking contrast to the situation a year ago. The decline in car loadings throughout the country may prove seasonal but has served to ease the industry's transportation problems that also hampered operations at that time and accumulations of scrap, as we have pointed out, tend to solve one of the most pressing problems of last year. On balance the factors of raw materials supplies and transportation now should argue for a more reasonable labor attitude when the time comes for a showdown on wage and other demands.

What counts most heavily in the equation is the vast improvement in efficiency the steel industry should enjoy in 1949 as a result of modernized facilities. New blast furnaces costing up to $15 million apiece are turning out 1,200 tons of iron per day. Ingots are rolled into sheets at the rate of more than 60 miles an hour in the new up-to-date mills. Increased use of oxygen promises to reduce melting costs in surprising manner. Evidence of improved operations is supplied by the fact that the industry utilized 73% of ingot content last year compared with only 68% the previous year.

Besides these newly acquired advantages, many aggressive units in the industry devoted large amounts of retained earnings or new capital funds last year to effect greater integration. Coal mines were purchased and equipped with cost-saving machinery developed in postwar. Search for new ore supplies has been stepped up, leading for instance to acquisition by U. S. Steel of Venezuelan properties with an indicated 300 million tons of high grade ore. The Hanna interests are about to develop a similarly promising iron ore body in Quebec and Labrador. These moves, though, are more significant from a longer range view.

Of more immediate import is the prospect that operations generally in the steel industry will benefit by decidedly improved cost controls in 1949. Heavy overhead expenses can hardly be reduced and wage costs may expand. But with modernized, efficient facilities, with raw materials in fairly ample supply at lower prices and with an adequate labor pool to draw on, former high break-even points should begin to come down, making for greater earnings stability. Thus it is assumed that Big Steel, for example, lowered its pay point from a level of 80% in 1947 to nearer 60% in 1948, and this is probably characteristic of the industry.

It appears doubtful at this time whether the industry will attempt to lift steel prices further in the current year now that supply is approaching demand and the economy is passing through a period of readjustment. Under the circumstances, any increase in wage costs will likely have to be absorbed. While numerous concerns, like Bethlehem Steel, may find their net margins pinched to around 5% of sales, well sustained high volume and operating economies should combine to produce very satisfactory earnings. Higher taxes of course would reduce net of all firms to some extent, but this could be offset by a smaller percentage of earnings allotted to contingency or other reserves; last year's deductions for this purpose were abnormally large in many instances.

To summarize, the steel outlook continues strong though losing some of its force. Steel is the kingpin of American industry and its recent continuous operations at capacity have done more than anything else to maintain optimism over the basic business posi-

tion. Reports of steel order cancellations have been coming in for a few weeks but so far implying no drastic change though pointing to a fast approach to more normal conditions.

Indicative of this trend, some steel firms which had higher prices than the majority have dropped them to regular mill levels, and some holders of non-cancellable conversion contracts are trying to buy their way out of these commitments. Additionally, steel consumers are getting increasingly conservative in the placement of new orders and as regards to inventories. But withal, steel orders remain quite heavy; Government spending for purposes requiring steel is substantial and may grow in the months to come. Definitely there is no sign that the bottom is likely to drop out of steel. Even under more normal and competitive operating and demand conditions, the industry should continue to do quite well.

In view of their generally favorable present and prospective position from the standpoint of earnings, the steel group on the whole has performed better than the general market over the past year or so though the recent market decline carried some issues close to new lows. Dividend yields generally are high and price-earnings ratios modest, attesting to reasonable market valuation of shares in this division which may well have overdiscounted whatever uncertainties lie ahead for them. Shares of well situated companies should give a good account of themselves on any future market uptrend.

Year-End Statements

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the evident return of a normal seasonal pattern. It should occasion no surprise, accordingly, if earnings should dip moderately in 1949.

Endicott Johnson Corporation, a leader in the shoe industry, managed to expand its earnings last year to $4.11 per share from $3.27 in 1947. This experience attests to efficient cost control in a period of fluctuating prices for materials and a slump in demand for shoes experienced by increased competition. Sales rose by $6.6 million to a total of $148.6 million, indicating a strong trade position. Higher costs reduced operating margins to 5.5% compared with 7.2% a year earlier. Operating potentials for the current year are improved by accumulated inventory reserves of more than $18 million and the fact that inventory values at the year-end were below market values at the time. In reporting earnings last year, provision had been made for lifting inventory reserves by about $1.1 million. As demand for shoes depends largely on the level of national income and replacement essentials, and lower prices for hides, leather and rubber should reduce operating costs of this strong manufacturer, sales and earnings in the current year should not vary much from those of a year ago, though tax factors could offset results.

At least one concern that topped all previous records in 1948 admittedly expects to do less well as to volume and earnings in 1949, but special circumstances account for this. We allude to Dresser Industries, Inc. This company's thirteen divisions made record gains in sales and profits last year, pushing total volume up to $108 million and net per share to $7.14 compared with $3.85 in1947. Ten divisions concentrated on production of a wide range of pumps, compressors, couplings and rigs for the oil industry, while the other three manufactured heaters, boilers and furnaces for homes and various industries. In 1948 sales of these latter items accounted for $29 million of total volume and about 27% of over-all earnings.

Prospects for long continued demand for Dresser's oil equipment and the special skill required for its production induced the company to concentrate its personnel and resources in this single direction last January. To this end, the three gas equipment and heater divisions were sold for $10,870,000 cash, thus simplifying operations and substantially bolstering working capital. Over the near term this step naturally will result in reduced volume and earnings, but the management should derive ample profits from the major portion of the business retained, while its growth potentials in the oil equipment field have been enhanced rather than retarded by the move.

A sharp uptrend in earnings of Caterpillar Tractor Company last year is no certain indication that the peak was reached. As result of a 15% rise in sales to $218 million, operating margins were increased to 10.3% while earnings per share rose to $7.32 from $5.29 in 1947. A strike in the spring of last year caused a defiicit of 58 cents per share in the second quarter but earnings rose fast in the following periods, reaching $3.91 in the December quarter. Barring work interruptions in 1949, it is quite possible that sales will at least equal those of a year earlier.

High level activity is expected to continue in the various markets served by this aggressive concern. These include agriculture, construction, mining, petroleum, transportation and utilities, all marked with strong indications of continued heavy demand for the company's diesel engines and tractors. A three-year expansion and modernization program is nearing completion; progress thus far has reduced unit costs progressively and stepped up production to a point where customers are no longer forced to accept allocations. Worldwide demand for Caterpillar tractors continues substantial, but dollar shortages limit export potentials. On balance, especially in view of the improvement in steel and fuel supplies, there seems reason to take an optimistic view of the earnings outlook for this concern in the current year.

Koppers Company, Inc. in 1948 had the largest sales and earnings in its history, most divisions of this diversified producer contributing to the gains. On volume of some $200 million, a net profit of $10.5 million was realized, equal to $8.84 per share, despite the moderate net margin of 5.25%. From the appended table it will be noted that quarterly earnings expanded consistently throughout the year, with net for the final quarter running at an annual rate of better than $12 per share.

The management, though, has adopted cautious policies in appraising potentials for 1949, as possible allocation of materials, government controls and a rise in tax rates cloud the outlook. With 15,000 workers on the payrolls, the wage factor also has become a problem. Prospects for stable volume are fairly bright as regards the sale of coke, industrial gases, chemicals and metal products at satisfactory prices, though demand for tar products and preserved woods developed some weakness in 1948. Completion of modernization and expansion programs as the year unfolds may help to widen profit margins, though heavy construction and operating costs may prove hard to overcome. Chances are relatively good that 1949 net earnings may be comparble to those of 1948, but should they recede somewhat they would still be far from disappointing.

Quarterly earnings of Deere & Company, a leading factor in the farm equipment industry, advanced substantially and continuously during 1948. In the fiscal year ended October 31, 1948, volume soared to an all-time peak of $309 million while net earnings rose by about 80% to $7.16 per share, after allowing the equivalent of about $1.30 per share for inventory reserves. Smoother operations were made possible by increased supplies of materials, as well as by completion of the company's large scale plant improvements. Now that the postwar scramble for farm machinery has subsided and seasonal factors are likely to affect sales, it is possible that interim reports of Deere & Company may reveal more variations.

The affluent condition of farmers, however, warrants expectations that purchases of cost-saving equipment in 1949 will continue on a very high level. The long established reputation of this concern and its numerous dealers strengthen its potentials for getting a full share of available business. Upon the outcome of wage negotiations this summer will depend hopes of holding costs to a level no higher than last year. Thus the outlook for both sales and margins is somewhat obscure. As for net earnings, Deere now carries $19 million reserves against price declines and an additional $10 million for contingencies. Since this adds up to 38% of inventory values, no further additions may be considered needed. In this event operating income in the current year could recede substantially and yet leave net at a very satisfactory level.

How to Avoid Excessive Taxation and Prevent Depression

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tell. As this burden continues, its repressive effects will be increasingly felt.

Naturally, in the controversy between debt retirement vs. tax reduction, there are many things to consider. Quite possibly, tax reduction at this time is not practical; but if so, neither is debt retirement on a large or continuous scale, via higher taxes, at a time when the tax load is still so heavy as to impede the accumulation of savings, hinder their flow into capital formation and discourage individual incentives.

At a time when we have to pay enormous premiums for insurance against war, little or nothing of current revenues can or should be set aside for debt retirement, nor should the tax take be stepped up for the purpose. We can safely manage and service our debt, and even protect ourselves against possible inflationary pressures, by fostering wider distribution among individual investors through sales of savings bonds or marketable medium and long term issues rather than by conversion of a growing part of the debt into short term obligation as now seems to be the policy. Keeping our economy healthy and vigorous will facilitate this task; undermining its health by exces-

How to Avoid Excessive Taxation and Prevent Depression

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sive taxation will create new and serious problems that ultimately can easily lead to the need for new deficit financing.

The cardinal question, when it comes to Government spending, is: Where is the money coming from? There are those who feel that it can come from business and the relatively well-to-do despite the fact that the tax burden upon production and enterprise is already such that the vigor of the economy is threatened. Clearly, there can be no real advance in the nation's welfare if these vital forces are stifled and discouraged. We must steer clear of any tax policy, the impact of which is likely to damage or block the very business prosperity which is essential to the welfare of the country and which alone will enable us to service our debt and carry the heavy obligations which we have been forced to assume in the interest of world peace.

Need for Industrial Health

To continue as leader of the democratic forces of the world, we must have a strong and expanding industrial plant, and we must have a corporate financial structure which is flexible, sound and able to adapt itself to changing conditions. The immediate problem is to bring about a larger volume of savings in order to finance, in a non-inflationary fashion, industrial expansion and modernization. Such savings, whether individual or corporate, cannot be created by taxing the country to the limit. What's more, should the latter course lead to depression, as it sooner or later would, it would place the finances of the Government in a rather precarious position.

Fortunately, congressional sentiment favors a cautious and conservative approach to the question of higher taxes. Inclination is to postpone tax legislation until a clearer picture is available of the size of appropriations and the amount of revenues that can be expected, and to wait for more evidence on the inflationary and deflationary forces at work. This is sound procedure, particularly if followed later by realistic action not only on taxes but on Government economies with an eye to avoiding new taxes. The Hoover Commission reports have pointed the way; it remains for Congress to transform their recommendations into action. This may be a lengthy process but a beginning can be made right now, with salutary results. There is plenty of room for substantial savings through more efficient operation of many Government functions.

State and local governments, too, should look into possibilities for economies rather than for new sources of tax revenues if they want to keep out of fiscal and political trouble. The "taxpayer's revolt" in New York State as reflected by the split in the Republic faction over Governor Dewey's budget entailing higher income taxes is a case in point. It may easily happen elsewhere.

Taxpayers Speak Up

The taxpayer, individually, is fed up with being milked to death by Federal, State and local imposts while waste and extravagance is rampant. Besides, if his hard-earned dollars are taxed away, they cannot be spent for consumer goods, and consumer spending is the backbone of prosperity. Breaking that backbone by taxation is not good policy; it will hasten depression just as surely as overtaxation of business is bound, in the long run, to halt our advance as an industrial nation and bring about the quick demise of free American enterprise. If we don't want that to happen, we better do something about it. It's not only up to Congress, but up to the voters to tell Congress how they feel about it.

Many Stocks Have Seen Bottom for 1949

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replenishing, given indications either of probable stability or some improvement in Spring retail demand. Looking at two of the most barometric industries, production of steel remains at peak levels and over-all output of automobiles is rising strongly. In consumer durables the relaxation of installment - financing terms should be somewhat beneficial.

Average dividend yields recently rose to the highest level in some years, due more to increased payments than to lower stock prices. Considered in relation to high-grade bond yields, representative industrial equities, returning well over 6.5%, are more cheaply priced than at any time since early 1942 under major bear-market conditions. There is no change in our policy which, for average accounts, is to maintain 75% invested positions in carefully selected issues.

—Monday, March 7.

As I See It!

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linked to the West and strong enough to become a pillar of the free world. No Western Union can have meaning unless it is a full and real union, politically, economically and with closest collaboration in strategic planning. Mere talks, diplomatic pacts and theoretical discussions are hardly enough to cope with the present grave world situation.

If Europe wants to survive, if she wants to keep out of the grip of Soviet tyranny, if indeed western civilization is to survive, it is absolutely necessary that Europe be fully united so that she can effectively defend her culture and and democratic way of life.

Curiously enough, public opinion in this respect, in most European countries, is far ahead of their dangerously slow political leaders. Norway's courage should be a shining example for all others. Western Europe, by joining together, has nothing to lose and everything to gain, for she faces a straight choice between freedom and prosperity, and the growth of the totalitarian straitjacket. It should be a simple choice, not overly complicated by considerations of national sovereignties and special interests so long as the survival of Europe is at stake. It is up to the leaders of Europe to close the gap between their thinking and that of their peoples.